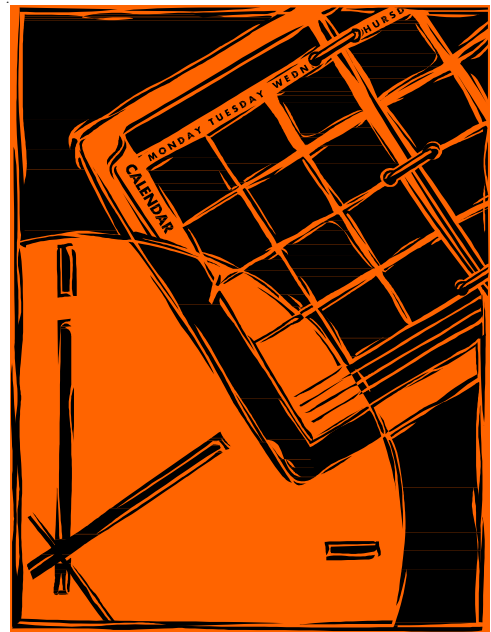


**State of Alaska Department of Community and Economic
Development**

Financial Management for Utility Managers



Instructor's Manual

August 2002

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Alaska Department of Community and Economic Development
Rural Utility Business Advisor Program

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August 2002

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Utility Managers**

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Department of Community and Economic Development
Rural Utility Business Advisor Program**

Foreword

This course was developed as one of a series of six courses to provide utility managers of small sanitation facilities a basic understanding of the principles and practices involved in management water and wastewater sanitation facilities. Each class is a 32 hour course.

This is the sixth and final presentation of the series, financial management. The first five have been *Introduction to Utility Management, Organizational Management, Personnel Management, Planning Management and Operational Management*. The order that the student takes the classes is unimportant other than the Introduction class should be taken first. It is hoped that by the time the utility manager completes all six of these classes, that they will have a good understanding, and the tools to address most of the issues that they will have to face in managing a utility.

Often we are asked, “Who should attend this class?”. The courses are targeted at managers of water and wastewater systems in communities with a population between 100 and 1,500. Communities smaller than 100 will usually have very limited systems and staff, and not need, nor have the capabilities to do most of the processes described in this course. Those systems that serve communities over 1,500 in population typically have hired experienced professional staff who have already implemented the process described here, or contract for their implementation. What if there is not a person with Manager as title? While there may not be a person with that title, there is usually one person that is responsible for overseeing the day to day operation of the utility, this person is the Manager. This person can actually be a Council Member, Mayor, Chief, Operator, or Clerk. The easiest way to identify this person is to ask either the clerk or operator “If a customer came to you with a complaint that you could not fix immediately, who would you tell them to talk to?” That person is most likely the Manager.

Financial Planning for Rural Utilities

This course is specifically designed to demonstrate the teamwork, cooperation and discipline that successful financial management requires. For an organization to operate in a positive financial position, it takes the operator to reduce costs of materials and supplies and keep equipment operating optimally, the clerk to perform the billings timely and be tough about collections, the Council to be informed of the financial position at all times to make good financial choices. This is particularly difficult in rural locations where population bases are smaller, costs and transportation higher and systems subject to extreme climate conditions. These all make the job of financial management more difficult, but don’t despair, with teamwork . . . you can win.

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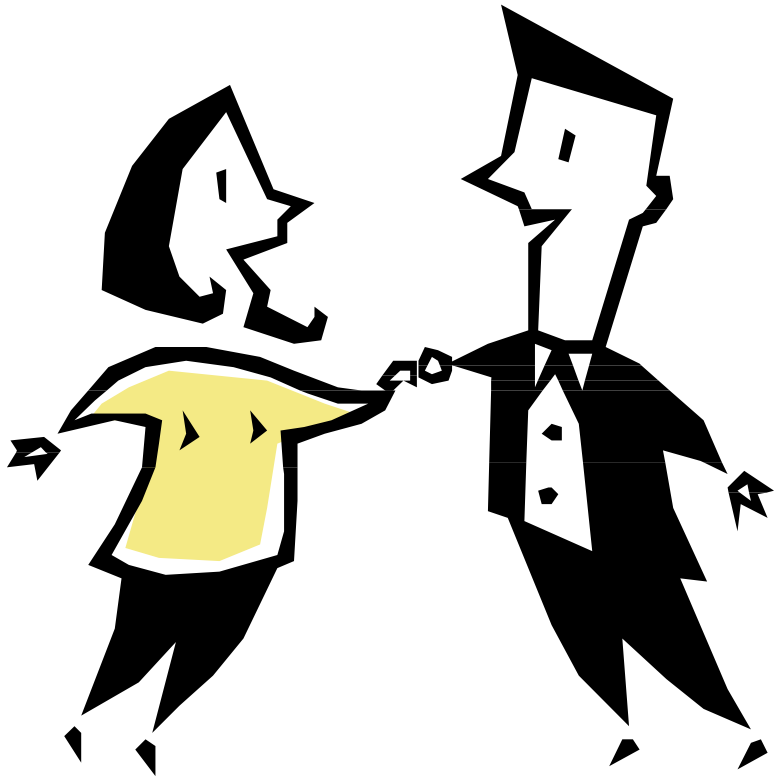
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Chapter 1

Introduction



Financial Management for Utility Managers
Department of Community and Economic Development

Overhead 1

Introduction

Presentation Sequence

Welcome and setup

The classroom needs to have plenty of electrical outlets for calculators and the overhead projector. Provide enough tables for seating no more than three participants at a 6' table, with plenty of workspace and space for materials. Locate coffee, hot water for tea, water and snacks at the rear. Provide instructors with an overhead projector, flipcharts, flipchart holders, a podium and a table for instructor materials and handouts.

Participants are given student guides on arrival and asked to sign-in. Participants are provided with nametags and place cards with their names on them. Pencil sharpeners, pencils and calculators are made available.

Welcome participants and introduce instructors. Provide directions to bathroom facilities, rules pertaining to coffee and breaks, and where to take smoke breaks. Have course sponsors provide information about lodging, meals, transportation, twice daily signing in and anything pertaining to necessary receipts and paperwork.

Present an overview of the course and how financial management relates to the other topical courses in the series.

Have participants introduce themselves, their community, their position, and background and experience with financial recordkeeping. If you wish, have students interview each other and then introduce whom they've interviewed to the rest of the class. Provide the opportunity for each participant to write on a flipchart provided for this purpose what he or she would like to 'get from the course'.

Delivering the material

As much as possible course presentation follows the sequence outline in this guide and in the student manual. This makes it easier for the student to follow along in their manual and also for them to find things later based on when the material was presented.

There is always room for flexibility though, especially in how long you spend on each subject. You will know this when you get a feel for the level and special situations of the students.

The course is designed to alternate between instructor presentations and more student-active periods such as exercise and review worksheets. Even during the instructor presentation, try to vary the delivery by encouraging student questions and posing some to them. Switch back and forth between the overhead projector and flip chart (or black and white board). You do not need to steadily plop each overhead on the projector one after another. You may choose to skip one or two now and then and write or diagram the concepts in your own way on the board.

Suggested time lines

Topics covered in this class have been laid out in eight three – to – four-hour segments (corresponding to the chapters of the Student Manual) plus an Introduction and Overview Section and pre and post-tests. A hypothetical class would start Monday after lunch and end Friday at noon. Instructors need to be flexible and shift the time sequence as necessary to meet the individual needs of the class.

Description of the Pre/Post Test

The pre/post test is used to test growth of knowledge. The pre-test is given the first hour of the first day. The pre/post test is designed to cover the full range of material and to try to hit the most important concepts. Assuming students know little of the subject when they start the class, they will usually not do well. At the end of the class, when they take the posttest, we hope they pass with flying colors. Instructors need to grade the pretest and keep a record of each student's score for comparison with the posttest and provide this information to the RUBA Director.

For statistical accuracy, you can give the same test at the end as at the beginning. There are, however, enough questions to give a different test at the end.

Function of Key Terms in the Text

The emphasis on key words in the text is for one very important reason. When a utility manager picks up the phone to call someone outside the village, they need to use and understand the vocabulary of the industry.

Suggestions for the Use of the Exercises

The exercises are a large part of the course. It's the instructor's prerogative to determine which exercises to use and when and how they will be used. Put heavy emphasis on the key words and definitions located in the appendices.

Instructors if you do not know the meaning of the words and/or their application, please review the definitions and see what their application is before beginning instruction. The first chapter provides the basis for the rest of the chapters and is crucial to understanding. Because of flexibility, the sequence of delivery does not contain the exercises and can't be calibrated to a time schedule until they are chosen. **The exception here is Chapter 2 where the exercises are written on the PowerPoint Presentation as well as on the instructor's text. The reason for this is to coincide with the budget presentation, which builds step by step from budget worksheets to the budget.** The exercises, block of overhead and other lesson elements have estimated times next to them on the sequence of delivery. Notes for instructors about each individual exercise are headed with time and material requirements and some general instructions. Most of these remarks are intended for both instructor and student and therefore the exercise sheets are ready to copy for class distribution as needed. Some only require simple instructions verbalized or written on the overhead or board. Some have fill-in worksheets.

Work on introducing and starting each exercise so the students are excited about it. Guide them along so they stay on the core material. Feel free to tailor the exercises to meet the particular needs of the class. When the exercise calls for breaking the class into groups, mix them up now and then, but allow them to do several exercises with the same group too. This way they can get to know all the other students at least a little and begin to feel comfortable.

Each lesson is designed with a minimum amount of delivery time and a maximum amount of student interaction. In each lesson the number of student exercises provided exceeds the amount of time available. The instructor must select those exercises that provide the greatest benefit to the participants. Instructors are encouraged to add additional exercises of their own choosing and to provide exercises to other instructors for their use.

Pretest

The pretest should be handed out, and 20-30 minutes given for its completion. Instructors may elect to go over correct answers at this time, or have participants hold their pretest in their material until completion, and final review before the post-test. After the pretest is scored have instructors review areas that students miss consistently. This alerts instructors to areas that need to be especially targeted.

Introduction

Instructor's Notes

Chapter 1 – Introduction

Chapter 1 introduces the concept of accounting, how accounting differs between profit and non-profit entities, and the nature of non-profit and governmental entities.

The information in chapter 1 provides a foundation for future chapters and needs careful presentation. Do not rush through the material.

Exercises

Exercise 1 – Ice breaker

Exercise 2 – Governmental entities, services and resources

Exercise 3 – Review of concepts and terms

Worksheet

Have participants complete the worksheets located at the end of the chapter. When participants are finished, solicit answers from volunteers. Correct the worksheet before proceeding, participants with 80% or higher (miss less than 6 questions) demonstrate an understanding of the material. Participants with scores less than 80% are asked to review the chapter that evening.

Wrap-up

At the end of every class provide a question and answer period. Give opportunity for questions and answers before ending class. Participants are responsible for their materials.

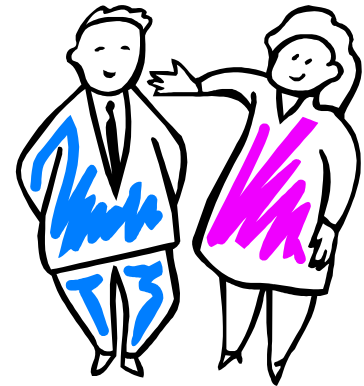
Exercise Notes

All exercises should be done in groups of 3-4 participants. Most exercises require calculators and handout sheets. Exercises must be written in pencil, so that errors can be erased. Hand-outs are packaged separately for copying. There are three exercises associated with chapter 1. Exercises #1 and #3 are optional and can be placed anywhere during the lesson, it is recommended that #1 be close to the beginning, and #3 be close to the end of the presentation, just before exercise questions. Exercise #2 is integral to the lesson and should be placed after slide 6 in the PowerPoint presentation.

Introduction

Objectives

- Provide individuals in management positions with a basic understanding of financial accounting.
- Define the differences between the application of accounting principles in government, business, and non-profit agencies
- Describe the relationship of the budget to the chart of accounts



Key Terms

- Accounting
- Auditing
- Non-Profit
- Sole Proprietorship
- Partnership
- Corporation
- Stewardship
- Efficiency
- Effectiveness
- Fund
- Cash Basis
- Accrual Basis
- Budgeting
- Expenditure
- Budget
- Journal
- Ledger
- Accounting Cycle

Accounting

Overhead 2

What is accounting? Why do we need it? Who uses it? What's it good for? Who started it in the first place? Does it have many rules? How can I most easily accomplish proper accounting? Is accounting for government entities different from business accounting?

Good questions. So let us begin....

Exercise 1 - Ice Breaker

Accounting is a process where financial information about an organization is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties. This is the formal definition of accounting. However accounting is much more; it is what rules in the game of money.

There are three driving forces in life: the drive to acquire happiness or love, the drive to acquire power, and the drive to acquire wealth. Because wealth is such a major force, there are numerous studies of wealth, and wealth accumulation: economics, marketing, business management, and finally accounting. So what is the job of accounting in all this? Accounting sets the rules for all the rest. Accountants are the policemen of the world of money.

From historical times when corn and sheep were bartered, someone had to establish the value of each. Money, the intermediate, of the deal (which gave corn and sheep a value) was the result. It is still just as important today as it was then. Today's accounting has advanced to a more technical level: international transactions. How much is the Japanese yen worth against the dollar, against the Canadian dollar, against the Russian ruble, etc. International transfer of wealth is what makes modern societies, and the world's economy function.

History of Accounting and First Audits

Overhead 3

First audits

Scribes for the Pharaohs of Egypt performed the very first audits. According to history each scribe had a clay tablet. Each day they counted the pharaoh's crops and taxes collected. If their amounts didn't match, they were killed. Needless to say, their tallies were known for accuracy.



Luca Pacioli, the father of accounting

Luca Pacioli is known as the father of accounting. He was a 15th century monk living in a monastery in Italy. He was a mathematician working on a mathematical treatise of some sort, and liked to work late at night.



He liked to drink wine while he worked. He went down to the wine cellars below the winery and helped himself to wine from the kegs there, bringing up a flask, or two, every night.

This added up to quite a bit of wine. When he was finally caught his penance (a monastery's system of jail time) was to develop a system to discourage or make it more difficult for others to do what he had done. Luca developed double entry accounting. Voila! Accounting was born.

What is Modern Accounting?

Overhead 4

Accounting is called the “language of business” and is the principle means of communicating financial information. How do we communicate a financial idea? Like a sentence that needs a subject and a verb, a financial idea needs an account (subject), and an amount (verb).

But first we must identify an economic event (transaction). An economic event is the exchange of money or resources for a service or a product.

Once the economic event (transaction) has been identified, we must record, classify and summarize that event. We can record a transaction in a sales book, a payroll journal, a check register or any journal that records, separates and totals the money transacted.

Next analyze and prepare the proper reports. A report can be formal, such as a balance sheet or statement of revenues, or informal, such as a verbal report of operations. This information is communicated to management, and other interested parties.

Who do we communicate to?

Overhead 5

Financial events and financial reports are reported to business owners, bankers, managers, city councils, regulators, investors, brokers and other interested parties.

Users of financial information are separated into three classes: Internal users – managers, officers, council members, and owners; external users – those with a direct interest such as grantors, investors and creditors, and those with an indirect interest such as taxing authorities, regulators, customers, labor unions, and economic planners.

Primary users of financial information

The primary users of financial information are individual investors and businesses. Investors use financial information about publicly traded corporations as a basis for their buy and sell decisions. Businesses use financial information to plan operations.



There are Two Types of Businesses

Overhead 6

There are two types of businesses: **for profit** and **not-for profit**. A ‘for profit’ organization is one whose primary objective is to operate at a profit and accumulate wealth. A ‘non-profit’ organization is one whose primary objective is to provide a service to the public.

For profit business organizations are:

- Individuals
- Sole Proprietorships
- Partnerships
- Corporations
 - Small – privately owned (called “closely held”)
 - Public (traded on the stock exchange)

Non-profit organizations are:

- Governments
- Non-profits



Governments
Overhead 7

Government is business run by the people, for the people, of the people. When we think of government we immediately think of the federal government. There is only one federal government, 50 state governments, and there are many other types of governments.

- Federal Government
- State Governments
- Local Government Entities

At the last census, there were 86,692 total local governments counted. These governments included the following:

- Counties
- Municipalities (cities and boroughs)
- Townships
- School Districts
- Special Districts (District of Columbia)
- Tribal Governments
- Tribal Councils
- Traditional Councils
- IRA's

Importance of governmental segment

What is the importance of the governmental segment? Twenty percent of the total workforce is in governmental employment.

If governments were listed in the *Fortune 500* listing of largest businesses, all 50 states would qualify in the top 343. That doesn't include the cities of New York, Los Angeles, Chicago, Atlanta and other large cities.

Government is huge. In addition to being the number one employer, it is also an enormous buyer and seller of services from the private (business) sector.

Career opportunities in government

An extremely high percentage of workers in Alaska are government workers (Fairbanks reports approximately 50 percent). The percentage of full time government workers in rural Alaska is even higher. If we include the numbers in the other non-profits, we recognize there are wonderful career opportunities in government.

Exercise 2 - We Serve the Public

Other non-profit, organizations
Overhead 8

Outside of government there are numerous non-profit organizations. A non-profit organization is one that is registered with the Internal Revenue Service whose purpose is educational, recreational, service or public. These include all the service and public organizations:

- Health and welfare organizations
- Unions
- Fraternal orders
- Sports programs
- Many, many more



Who Owns What?
Overhead 9

One of the primary differences between ‘for profit’ and ‘non profit’ is the question of ownership. For profit enterprises have a definitive owner:

- Individual – owns all our assets
- Sole Proprietorship – owned by the business owner
- Partnership – owned by the partners
- Corporation – owned by the shareholders

No one individual owns government. Government is the property of the collective population. For example, even though the property of the United States belongs to all the citizens, one cannot go to the nearest military base and take a tank because one paid taxes (and thus owns a piece of the military).

Non-profit organizations are similarly without distinct ownership. They functionally belong to their board of directors, however those directors are not entitled to any assets should the organization dissolve. The assets of one non-profit are required by law to be transferred, upon dissolving, to another non-profit. No individual may receive the proceeds from the dissolution of a non-profit organization.

Primary objectives of business

What is the primary objective of a business? If it is a 'for profit', then the object is to make a profit. An individual usually accumulates wealth to spend and/or bequeath to his/her children. A business accumulates wealth to enrich the owner (sole proprietorship), owners (partnerships and corporations), shareholders (public corporations), and membership (non-profit corporations).

Governmental entities and non-profits have an entirely different objective. Their objective is to serve the public. Serving the public means providing services and products that are needed by all, or by particular segments of the public; yet, such services or products are not provided for a profit motive.

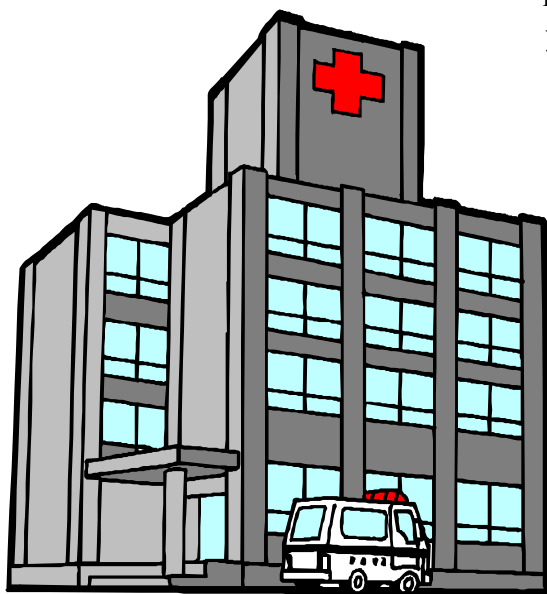
Examples are:

- Youth sports activities
- Special needs organizations, such as Deaf Community Services
- Volunteer theater organization
- University of Alaska

There are many different types, however they all have one objective: to serve the public.

Business responsibility

If you were manager of a business, who would you ultimately be responsible to? As an individual, you are responsible to yourself or to your family. In a sole proprietorship you are responsible to the owner. In a partnership, you are responsible to the partners. In a corporation, you are responsible to the shareholders.



In government and non-profit entities, your responsibility is to the public or to your membership.

This makes a huge difference in business and management decisions. In business it is all right to buy gadgets from your brother, even though you spend \$5.00 more for each gadget. In government this "inside" buying is forbidden. In business you can direct all your purchases wherever you desire. In government you must put business out for contract to the lowest (or best-rated) provider.

This decision-making and responsibility issue is a central and vital difference between the two types of entities.

Who pays for services?

Another area that reflects huge differences between ‘for profit’ and ‘non-profit’ is the question of who pays for and receives services. In a ‘for profit’ environment, the purchaser of services receives the full value of those services. When I go to the grocery store, I pay for my groceries and I receive all of them. The benefit received (groceries) equals the amount paid.



In government, this “pay versus receive” concept has no relationship. There are some services we pay for with our taxes that benefit all, such as national security. There are some services we all pay for, such as schools even though there are some who have no children. We pay for schools regardless of the number of children we have. Those who have one child pay the same as those who have seven children, or no children.

There are benefits for those who do not pay taxes, such as welfare benefits and other income related benefits.

There is no relationship between paying for and receiving benefits. The rich do not receive more benefits though they may pay higher taxes. The poor do not receive less benefits, though they may pay less in taxes.

What organizations pay taxes?

Individuals pay the bulk of all taxes with individual income taxes, property taxes, cigarette and gasoline taxes, and other excise taxes. Sole proprietorships and partnerships do not technically pay taxes, however their income is reported on the tax returns of the individual owners. Corporations pay corporate income taxes, both federal and state.

Governments and non-profits do not pay income taxes. Governments are not subject to income or property taxes. Non-profits are exempt from income taxes if they obtain a determination from IRS that they qualify.

To become a non-profit the organization applies for, and if eligible receives, a determination from the Internal Revenue Service that is called a 501(c). There are numerous categories of non-profits:

- 501(c)(2) — Title holding corporations for single parents
- 501(c)(3) — Charitable organizations
- 501(c)(4) — Civic league or social welfare organization
- 501(c)(5)— Labor union, agricultural or horticultural organization
- 501(c)(6) — Business league
- 501(c)(7) — Social or recreational club
- 501(c)(8) — Fraternal beneficiary organization
- 501(c)(9) — Employee
- 501(c)(10) — Domestic fraternal societies
- 501(c)(12) — Local benevolent life insurance associations, mutual irrigation and telephone companies, and like organizations
- 501(c)(13) — Cemetery company
- 501(c)(14) — Credit union and other mutual financial organization
- 501(c)(19) — Veterans
- 501(c)(20) — Group legal services
- 501(c)(21) — Black lung benefit trusts
- 501(c)(25) — Title holding corporations for multiple parents
- 501(c)(26) — State sponsored high-risk health coverage organization
- 501(c)(27) — State sponsored workers

All the above organizations are exempt from income tax. A non-profit is not exempt from property taxes unless they are religious or educational in purpose. Donations to these organizations are only deductible on an individual's income tax return if the donation is made to a 501(c)(3) charitable organization.

How does an organization receive money?

An individual can receive money from various sources:

- Wages and earnings
- Investments and sales
- Inheritance
- Winnings
- Gifts

All these revenues are subject to taxation except inheritance and gifts, if they are under a dollar ceiling. Loans are not considered income since you have to pay back the amount borrowed.

Sole Proprietorships, partnerships and corporations receive income from their operations or investments. They too are subject to taxation.

Governmental entities and non-profits receive money from many sources. Governments receive money from taxation. They are the only entity that is allowed to tax.

Governments and non-profits sell services and products to consumers. Both governments and non-profits receive grants and donations from individuals and corporations. They both hold and sell investments. None of the governments' revenue, from whatever source, is subject to taxation.



Summary of Differences Between Business and Non-Business Segments

Overhead 10

- Ownership
- The receipt of benefits is not related to payment for benefits
- Paying taxes
- Local government entities are the only organizations that legally can mandate involuntary payments: taxes, fines and penalties

Similarities in Accounting

The basic mechanics of accounting are the same for business and non-business segments. Many terms are the same or similar, for example “asset”, “chart of accounts”, “budget”, etc.

The record-keeping process is the same whether accounting for a profit or non-profit organization. Transactions are still recorded in journals, and posted to ledgers.

All useful financial information, in for profit and non-profit reporting have the same characteristics: relevance, predictive value, feedback value, timeliness, comparability, consistency, reliability, is verifiable, the information presented is a faithful representation, and is neutral.

Fund Accounting and Reporting in Governmental Entities

Overhead 11

Overhead 12

It is said that the market regulates business. If a business charges \$10 for their gadget, and another business across the street charges \$5, then the market (consumers) will go to where the best deal is. All business is in competition with all other businesses. In government there is no marketplace regulator. Governments don't have to compete. Other means must be used to ensure efficiency and effectiveness in governmental entities and non-profits.

Governmental entities and non-profits carry the responsibility of stewardship. Stewardship means there is the same responsibility on the part of government and non-profits toward their constituency as one who manages another's money.

For governments to operate efficiently and effectively without the market regulator, and to ensure stewardship over money, governmental accounting has established two firm controls. These controls are the use of funds and budgets.

Four Purposes of Governmental and Non-Profit Accounting

Overhead 13

There are four purposes to governmental and non-profit accounting:

1. Budget - Comparing actual financial results with legally adopted budgets
2. Audit - Assessing financial conditions and results of operations
3. Compliance - Determining compliance with finance related laws, rules and regulations
4. Evaluating efficiency and effectiveness

What is efficiency & effectiveness?

The definition of efficiency is the ratio of the effective or useful output to the total input in a system.



For example, producing safe water at least cost.

Effectiveness is the ability to produce desired results. For example, a system that delivers safe water at the least cost that people in the community are in support of.

Efficiency and effectiveness is delivering water and sewer with a system people are able to pay for while still producing safe water.

Governmental Accounting

Overhead 14

What is a fund?

Governments divide their monies according to how the money is to be used. Such use is called a fund. Each of these funds has to be accounted for separately. Simply put, for local governments, a fund or bank account is a means of keeping assets separated by intended use.

Three categories of funds

There are 3 categories of funds (bank accounts) used by governmental entities. 1. General funds (general fund) 2. Special revenue funds such as grants (revenue restricted to specific purposes) and 3. Capital Projects funds (used for acquisition or construction of major capital facilities).

1. Governmental funds

Overhead 15

Finance most governmental functions. The funds are considered expendable. There are four categories of governmental funds.

A. The most common fund is called the **general fund**. All funds other than those required to be in a fund other than the general fund are accounted for here. General fund sources of revenues come from: property taxes, sales taxes, general state aid, fees and fines, etc. General fund resources pay for: city administration, police and fire departments, courts, streets, parks, sanitation, and other departments that do not require separate funds.

Overhead 16

B. **Special revenue funds** (or grants funds) are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes. The sources of revenues are taxes and state or federal aid for specific purposes. The uses are as designated by the revenue source.

Overhead 17

C. **Capital projects funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities (except those financed by other funds). The sources of revenues for capital projects are bond revenue, state or federal aid, and allocations of the general fund. Examples are the construction or acquisition of buildings, the purchase of major equipment, road improvements, and bridges.

Overhead 18

D. **Debt service funds** are used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, and interest. The sources of revenues are transfers from other funds, and interest earned on investments. The use of these revenues is directed to the payment of interest and principal.

Overhead 19

- II. **Proprietary funds** are used to account for government activities that are similar to those found in the private sector. There are two types of proprietary funds.

A. **Enterprise funds (or utility funds)** are “businesses” run by government. Among these are electric or telephone utility systems, water and sewer utilities, washeterias, state or local liquor stores, and fuel depots. An enterprise fund charges fees to customers, and these fees provide for the expense of the activity.

Overhead 20

B. **Internal service fund or administration** serves other branches of government. An example of an internal service is processing payroll, providing external financial reports, or processing data. The sources of revenue for administration are charges to those other departments, such as an indirect cost or “administration”. Applying for and administering grants may also be administration funds.

III. **Fiduciary Fund**

Overhead 21

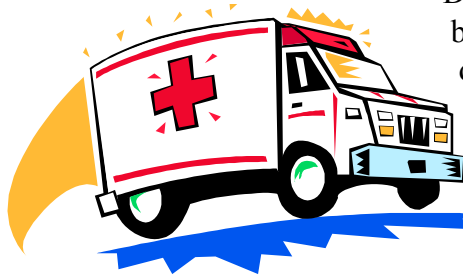
These are **trust and agency funds**, such as pension funds. Fiduciary funds account for money that belongs to others (citizens or investors). These funds come in two types: **expendable and non-expendable**. Expendable trust funds are like the Public Employees Retirement System (PERS); the money can be used in its entirety for funding pensions. An example of a non-expendable trust fund is the Permanent Fund Dividend (PFD). The corpus (body) of the trust is not used; only the interest earned on the body of the trust is used to fund the dividends.

Two account groups
Overhead 22

In addition to the funds listed above, there are two categories of accounts that are called account groups. They differ from funds because they do not have revenues or expenditures, only the account and its offsetting fund balance.

General Fixed Asset Account Group

When government acquires fixed assets, the asset is expensed to the department acquiring the asset and recorded in the *general fixed asset account group*. For example the purchase of a police car is “charged” or expensed to the Police Department. In a business the vehicle would have been capitalized (carried as an asset) and depreciated over its life. Because it is also important to a municipality to reflect the value of all its holdings, assets are recorded in the general fixed asset account group. These assets are recorded at their cost, never depreciated, and only removed or reduced when sold or discarded.



General Long Term Debt Account Group

When a municipality borrows money with bond sales, etc., the total amount of the borrowed funds is recorded in the long-term debt account group. The debt service fund would record only the **current portion**, which is the amount that will be paid in the **current year**.

Twelve Principles of Fund Accounting

Overhead 23

Fund accounting has twelve principles (or rules):

- 1) GAAP - (generally accepted accounting principles) must be followed
- 2) Fund Accounting – law dictates that funds are established and used
- 3) Categories and types of funds – the types of these funds are set by law
- 4) Funds required
- 5) Fixed assets and long term liabilities are accounted for separately from other funds.
- 6) Valuation of fixed assets – all assets are recorded at cost basis
- 7) Depreciation of fixed assets – depreciation is only taken on proprietary fund assets
- 8) Basis of accounting – the basis of accounting relies on the type of fund
- 9) Budgets and budgetary accounting - required
- 10) Interfund transfers – must be formally transferred
- 11) Use of common terminology – must use common accounting terms
- 12) Financial reporting – specific format for governmental (fund) accounting statements.

What is GAAP?

The common set of accounting principles, standards, and procedures. GAAP is a combination of authoritative standards (set by policy boards) and the accepted ways of doing accounting.

These are the rules that companies are expected to follow. If a financial statement is not prepared with GAAP principles then be very wary!

That being said, keep in mind that GAAP is only a set of standards. There is plenty of room in GAAP for unscrupulous accountants or anyone else to distort figures.

What is Fund Accounting?

A method of segregating resources into categories, (i.e. funds) to identify both the source of funds and the use of funds.

What are Categories and Types of Funds?

A Category is a *specifically defined division in a classification system*. *Types of Funds* are determined by the source and use of funds. For example the General Fund accounts for all funds other than those required to be kept separate. Categorizing the General Fund would be defining the sources of revenues, i.e. sales tax, state aid, fees, etc. and the use of such general funds would be categorized according to city administration, police department, fire department and so forth.

What are Funds Required?

There are funds that are required by the funding source or by GAAP. For our purposes the water/sewer account(fund) might contain several accounts (funds) within it. This enables all assets, liabilities, fund balance, and where appropriate, revenue and expenditure accounts for the washeteria, water/sewer system, pipes, water from the watering source to be accounted for.

Fixed assets and long term liabilities that aren't accounted for in a specific fund are required to be accounted for in a "fixed asset fund".

A water/sewer system generally has a fixed asset of a water plant. This is accounted for in the water/sewer fund. A local government has a fixed asset (community hall) and this is accounted for in Fixed Assets.

Valuation of fixed assets

In accounting all fixed assets are recorded at what the cost to build or purchase was until such time as it is removed or reduced when sold or otherwise discarded.

Depreciation of fixed assets

Depreciation is only taken on proprietary fund assets. Remember in government, proprietary funds are enterprise funds or internal service funds.

8-12 are explained in the principles

It isn't necessary to completely understand all of the GAAP principles to comply with them. In fact GAAP is similar to Robert's Rules of Order in that it covers generally accepted accounting principles that apply to all entities doing business. Some of Robert's Rules pertain to government and some do not. In GAAP there may be some funds that businesses use that don't have a corresponding use in government. For example: Profit vs. Non-profit Organizations

Profit Organization

Accounting emphasis is on **profit** determination.

- Generally have only **one** accounting/ business entity.
- Encumbrances **are not** used.
- Accounting information on costs and revenues can usually be **readily** sorted, identified, and tracked.

Non-Profit Organization

Accounting emphasis is on **controlling funds and showing the sources and uses of funds.**

- Have a **multitude** of accounting/ business entities (various funds).
- Encumbrances **are** used.
- Accounting information is segregated but can be **difficult** to sort, identify and track.
- **Budgeting** is used as a means of control

What is 'Basis of Accounting'?

Overhead 24

Cash Basis Accounting

Cash basis accounting system is one in which changes in the condition of the entity are recognized (recorded in the books) only when cash is received or paid out.

Accrual Basis Accounting

Accrual basis accounting requires recognition of revenue when it is earned, assets when they are acquired, expenditures or expenses when they are incurred, and liabilities when they are owed - all without reference to when cash was received or paid out. Accrual accounting, accounting for credit, is the method that is the standard for generally accepted accounting principles (GAAP), and the preferred and most common method used.

What basis of accounting does business use?

Businesses that extend credit to customers use the accrual method of accounting. Any business that bills for goods or services fits into this category. Businesses that operate on cash use the cash method of accounting.

What basis do governmental entities use?

Business can select whichever basis of accounting it desires. Governmental entities cannot. The basis of accounting, whether cash, accrual or a modification of either, is determined by the type of fund.

Governmental funds use modified accrual. They record revenue when it is receivable and can be estimated. Enterprise funds use full accrual accounting, so that they are comparable to businesses that utilize accrual accounts. Fiduciary funds use the type of accounting that is appropriate to the specific fund.

Accounting Terms

Overhead 25

Budgeting is a means of control to enable managers to keep expenditures within proper allocations and provide compliance with funding sources

Annual budgets are adopted for every governmental fund. The accounting system should provide a basis for appropriate budgetary control. Budgetary comparisons should be included in financial statements and schedules for governmental funds. There are several approaches to creating a budget:

- Performance budgeting
 - ◆ Input of revenues related to output of services. An example of a performance budget is a utility system that provides water, sewer, washeteria use, showers, and water sales. The revenue is dependent on the number of sales produced.
- Program budgeting
 - ◆ Budget format provides full cost information for a program or function. A budget is developed for a grant, or a police department.
- Incremental budgeting
 - ◆ Start with current year's budget and adjust line items for inflation and other cost increases.
- Zero based budgeting
 - ◆ Budget starts with \$0; the expenditures cannot exceed the revenue.
 - ◆ Activities and expenditures must be justified.

Inter-fund transactions

Money that is moved from one fund to another is not considered to be either revenue or expenditure. Money moved from one fund to another fund is a fund transfer. There are three types of fund transfers:

1. Operating transfers – this is where one fund creates a surplus, such as a fuel depot, and the surplus funds are transferred to the general fund. These transfers are operational in character.
2. Reimbursements – money paid back to a fund after it is “borrowed”. This is typical of grants where they are reimbursed after the expenditures are incurred.
3. Residual equity transfers – when you close a fund at the completion of a project, and there is a residual amount left at the end of the program. The amount transferred is known as a residual equity.

What is expenditure?

An expenditure is identical to an expense in a for profit business. It is money spent for operations, such as rent, utilities, payroll, and other costs of operations. Each expenditure is classified according by fund:

- Function
- Activity
- Organization Unit
- Character
- Object

What is an expense?

Defined as the cost of operation, including the cost of goods and services consumed.

Chart of accounts

Is a method to separate transactions into the following categories:

- Assets
- Liabilities
- Fund Balance
- Revenues
- Expenditures

Journals and ledgers

Transactions are recorded in journals (document of origination). An example of a journal is a check register, payroll journal, or a receipt book. A journal is any document where the transaction is recorded.

A ledger is a group or book of accounts in which the data from the journals are posted at the end of a time frame. Ledger books contain a page for each account and the account maintains a running balance. We use the ledger to create the trial balance, and the financial statements.

We *record* to a journal; we *post* to a ledger.

The accounting cycle

Accounting is broken into definite periods of time. An accounting period may be a month, a quarter, or a year. During the accounting period revenues and expenditures/expenses are accumulated. At the beginning of the next accounting period both revenues and expenditures are zeroed. Each accounting cycle begins “anew”.

Steps in the accounting cycle:

1. Transaction occurs
2. Source document is prepared or received
3. Transaction recorded in the journal
4. Journal totals are posted to the ledger
5. Ledger balances computed and trial balance prepared
6. Adjusting entries are recorded and posted
7. The adjusted trial balance is prepared
8. Financial statements are prepared

Exercise 3 - Odd Man Out

Notes

[illegible]

Introduction Worksheet

- 1) A process where financial information is recorded, classified, summarized, interpreted and communicated to the owners, managers and other interested parties is called _____.
- 2) Businesses use financial information to _____ operations.
- 3) There are the two types of businesses, one is a “for profit”, the other is? _____
- 4) A _____ organization is one that is registered with the Internal Revenue Service whose purpose is educational, recreational, service, or public.
- 5) One of the primary differences between “for-profit” and “non-profit” is the question of _____.
- 6) The primary objective of a “for-profit” is to make a _____.
- 7) Governments and _____ do not pay income taxes.
- 8) To become a non-profit the organization applies for, and if eligible, receives a determination from the _____ that is called a 501(c).
- 9) The recordkeeping process is the same whether accounting for a profit or non-profit organization.
☐ T ☐ F
- 10) Stewardship means there is the same responsibility on the part of government and non-profits toward their constituency as one who manages another’s money. ☐ T ☐ F
- 11) Budgeting, Auditing, Compliance, and Evaluating are the four purposes for _____.
- 12) The most common fund is called the _____ fund.
- 13) Governmental entities and non-profits utilize governmental accounting called governmental funds, proprietary funds, and trust funds. ☐ T ☐ F
- 14) Businesses run by the government are called _____ funds.
- 15) Money moved from one fund to another fund is called a fund _____.

Introduction Worksheet Answers

- 1) A process where financial information is recorded, classified, summarized, interpreted and communicated to the owners, managers and other interested parties is called accounting.
- 2) Businesses use financial information to plan operations.
- 3) There are the two types of businesses, one is a “for profit”, the other is? not for profit
- 4) A non-profit organization is one that is registered with the Internal Revenue Service whose purpose is educational, recreational, service, or public.
- 5) One of the primary differences between “for-profit” and “non-profit” is the question of ownership.
- 6) The primary objective of a “for-profit” is to make a profit.
- 7) Governments and non-profits do not pay income taxes.
- 8) To become a non-profit the organization applies for, and if eligible, receives a determination from the Internal Revenue Service that is called a 501(c).
- 9) The recordkeeping process is the same whether accounting for a profit or non-profit organization.
☒ T ☐ F
- 10) Stewardship means there is the same responsibility on the part of government and non-profits toward their constituency as one who manages another’s money. ☒ T ☐ F
- 11) Budgeting, Auditing, Compliance, and Evaluating are the four purposes for accounting.
- 12) The most common fund is called the general fund.
- 13) Governmental entities and non-profits utilize governmental accounting called general funds, proprietary funds, and fiduciary funds. ☒ T ☐ F
- 14) Businesses run by the government are called Enterprise (utility) funds.
- 15) Money moved from one fund to another fund is called a fund transfer.

Chapter 1

INTRODUCTION

Exercise 1

ICE BREAKER

Purpose

To introduce the participants to working together as a group and set the tone of the upcoming class.

Format

Small groups

Resources needed

Handout

Time requirement

0:15

Background

None

Activity

Pass out handout (provided) for each group, go through the first one with the class as an example and give them 15 minutes to solve as many as they can. At the end of the time have folks talk about what they came up with for answers.

EXERCISE I HANDOUT

TEST YOUR MENTAL AGILITY

This test does not measure your intelligence, your fluency with words or your mathematical ability. It will, however, give you some gauge of your mental flexibility and creativity. Few people can solve more than half of questions on the first try. Many however, report getting answers long after the test had been set aside - - particularly at unexpected moments when their minds are relaxed, and some report solving all the questions over a period of several days. Take this as a personal challenge. No prizes, no rewards, just self-satisfaction.

Instructions: Each question below contains the initials of words that will make it correct. Find the missing words.

For example: 16 = O. in a P. (Answer: 16 = Ounces in a Pound)

26 = L. of the A. _____

101 = D. _____

7 = D. in S. W. _____

12 = D. of C. _____

54 = C. in a D. (with the J.) _____

9 = P. in the S. S. _____

88 = P. K. _____

13 = S. on the A. F. _____

32 = D. F. at which W. F. _____

18 = H. on a G. C. _____

90 = D. on a R. A. _____

200 = D. for P. G. in M. _____

8 = S. on a S. S. _____

3 = B. M. (S.H.T.R.) _____

4 = Q. in a G. _____

24 = H. in a D. _____

57 = H. V. _____

11 = P. on a F. T. _____

29 = D. in F. in a L. Y. _____

2.54 = C. per I. _____

GOOD LUCK!

EXERCISE I HANDOUT

TEST YOUR MENTAL AGILITY

This test does not measure your intelligence, your fluency with words or your mathematical ability. It will, however, give you some gauge of your mental flexibility and creativity. Few people can solve more than half of questions on the first try. Many however, report getting answers long after the test had been set aside - - particularly at unexpected moments when their minds are relaxed, and some report solving all the questions over a period of several days. Take this as a personal challenge. No prizes, no rewards, just self-satisfaction.

Instructions: Each question below contains the initials of words that will make it correct. Find the missing words.

For example: 16 = O. in a P. (Answer: 16 = Ounces in a Pound)

26 = L. of the A. Letters of the Alphabet

101 = D. Dalmatians

7 = D. in S. W. Dwarfs in Snow White

12 = D. of C. Days of Christmas

54 = C. in a D. (with the J.) Cards in a Deck with the Joker

9 = P. in the S. S. Planets in the Solar System

88 = P. K. Piano Keys

13 = S. on the A. F. Stripes on the American Flag

32 = D. F. at which W. F. Degrees Fahrenheit at which Water Freezes

18 = H. on a G. C. Holes on a Golf Course

90 = D. on a R. A. Degrees in a Right Angle

200 = D. for P. G. in M. Dollars for Passing Go in Monopoly

8 = S. on a S. S. Sides on a Stop Sign

3 = B. M. (S.H.T.R.) Blind Mice (See how they run)

4 = Q. in a G. Quarts in a Gallon or Quarters in a Game

24 = H. in a D. Hours in a Day

57 = H. V. Heinz Varieties

11 = P. on a F. T. Players on a Football Team

29 = D. in F. in a L. Y. Days in February in a Leap Year

2.54 = C. P. per I. Centimeters per Inch

Chapter 1

INTRODUCTION

Exercise 2

WE SERVE THE PUBLIC

Purpose

To demonstrate the multiple services, programs, and complex revenue sources that constitute governmental accounting.

Format

Small groups

Resources needed

Flip chart, sheet of paper for each group

Time requirement

0:20

Background

It is important to understand the responsibilities and resources of different levels of government.

Activity

The group will be divided into groups of three or four participants. Each group will be given a sheet of paper and one member of the group will be assigned to be the recorder for the group. Each group will be assigned a different governmental entity.

- Federal government
- State government
- Borough
- City
- Non-Profit

Each group lists the services provided to citizens and the various revenue sources. Taxes listed as resources must be specific (i.e. income tax, property tax, cigarette tax). Note any revenues that are unique to that governmental entity.

When the groups are finished, the recorder reads the listing to the classroom.
Instructors check to see if the class is able to add to the results.

Chapter 1

INTRODUCTION

Exercise 3

ODD MAN OUT

Purpose

To analyze the common elements and differences in the following fund terms

Format

Small groups. Each group or participant is given the “Odd Man Out” handout. Instructors explain and read the exercise to the class. Participants discuss the four categories, and decide which doesn’t belong, and why.

Resources needed

Lists of questions for each group or participant

Time requirement

0:15

Background

The list presents terms introduced in chapter 1. Each grouping has three that belong together, and an ‘odd man’ that doesn’t belong.

Activity

Participants are instructed to cross out the item that does not belong and to explain why the term is different. Instructors at the end of the activity, have people take turns reviewing their answers.

ODD MAN OUT

Which one of the following in each set does not belong and why?

	A	B	C	D	Why
1	Love	Power	Wealth	Property	
2	Economics	Philosophy	Accounting	Marketing	
3	Corporation	Non-profit	Sole Proprietorship	Partnership	
4	Borough	State	School District	Tribal Council	
5	Red Cross	AFL-CIO	Mall of America	PGA	
6	Relevance	Predictive Value	Comparability	Dependability	
7	Budget	Profitability	Audit	Compliance	
8	General Fixed Asset	Governmental	Proprietary	Fiduciary	
9	General	Enterprise	Special Revenues	Debt Service	
10	Washeteria	Fuel Depot	Public Works	S&W Utility	
11	Performance budgeting	Compliance budgeting	Program budgeting	Incremental Budgeting	
12	Function	Vendor	Activity	Character	
13	Assets	Chart of Accounts	Liability	Revenue	
14	Transaction	Ledger	Journal	Accounting cycle	
15	Operating transfer	Reimbursement transfer	Residual Equity transfer	Expenditure	

ODD MAN OUT ANSWER SHEET

Which one of the following in each set does not belong and why?

	A	B	C	D	Why
1	Love	Power	Wealth	Property	Not one of the driving forces in life
2	Economics	Philosophy	Accounting	Marketing	Not a study of wealth or money related
3	Corporation	Non-profit	Sole Proprietorship	Partnership	Is not owned, not profit motive, not taxable
4	Borough	State	School District	Tribal Council	State is not a local government, others are
5	Red Cross	AFL-CIO	Mall of America	PGA	Hopefully the MOA is a for profit enterprise
6	Relevance	Predictive Value	Comparability	Dependability	Although nice, not a value of financial information
7	Budget	Profitability	Audit	Compliance	Not one of the purposes of governmental accounting
8	General Fixed Asset	Governmental	Proprietary	Fiduciary	The others are funds, this is an account group
9	General	Enterprise	Special Revenues	Debt Service	The others are governmental funds
10	Washeteria	Fuel Depot	Public Works	S&W Utility	The others are enterprises that charge user fees
11	Performance budgeting	Compliance budgeting	Program budgeting	Incremental Budgeting	There is no such animal, it's made up
12	Function	Vendor	Activity	Character	You code a transaction according to its function, character and activity, not vendor
13	Assets	Chart of Accounts	Liability	Revenue	The others are types of accounts
14	Transaction	Ledger	Journal	Accounting cycle	The three are steps in the accounting cycle, not the whole thing
15	Operating transfer	Reimbursement transfer	Residual Equity transfer	Expenditure	The others are transfers,

Chapter 2

Budgets



Financial Management for Utility Managers
Department of Community and Economic Development

Budgets

Instructor's Notes

Welcome back and review

Chapter 2 will be group work so have participants sit with a preferred group of two to three partners. Instructors try to group strong participants with less experienced participants. If you don't have personal knowledge of their experience level, review the pretest questions and match participants up based on how they answered the questions. It is not helpful to have two participants that know nothing about budgets working together, and two very experienced participants working together. Keep the groups small. We partnered folks and that turned out very well. Once you establish the groups, keep the groups the same for the exercises. Remember if the groups are too large, then some participants will be non-performers. Don't let this happen.

Review the key concepts of chapter 1, especially the fund types. Chapter 2 will focus on what a budget is and how to develop the budget using the budget worksheets and budget sheets leading to the budget ordinance from the City Budget Manual. For the exercises we will work through the budget process with the focus on developing a budget for Admin/Finance, and two enterprises, using the Water and Sewer and Washeteria.

Chapter 2 - Budgets

Chapter 2 is the longest and fullest of the chapters. It is also one of the best received, since it is "hands-on". Students should remark at the end of the chapter that they really learned a lot.

Chapter 2 is an application approach chapter, different from chapter 1 that was theory based. Learning is best when small units of instruction are broken up with the reinforcing exercises.

The chapter progresses through the many worksheets and budget forms supplied by the state and required of Alaskan cities for revenue sharing.

Exercises

There are seven exercises that parallel the budget building process presented in the chapter. The exercises are designed to be presented in a series with small units of instruction between, so that the exercise reinforces the material. The manual will and the overheads will state when to do an exercise. One thing we did that worked well here on the answers was to put them on transparencies and use the overhead. Answers to each worksheet need to be given out after each worksheet is completed unless you've had the participants make the corrections. **The reason for this is that each exercise builds on the prior exercise, if participants don't have the first information on each and every exercise, they won't come out with the correct answers.**

Worksheet

Have participants complete the review worksheets located at the end of the chapter. When participants are finished, solicit answers from volunteers. Correct the worksheet before proceeding, participants with 80% or higher (miss less than 6 questions) demonstrated understanding of the material. Participants with scores less than 80% are asked to review the chapter that evening. **We randomly had folks answer the questions all the way through. If the answer wasn't the one we were looking for, we'd just ask if someone had a different answer. We made sure that everyone was called upon and this worked well.**

Wrap-up

Give opportunity for questions and answers before ending class. Participants are responsible for their materials.

Exercise Notes

All exercises should be done in groups of 2-4 participants. Exercises require calculators and handout sheets. The handout sheets can be passed out at the beginning of each separate exercise, or stapled together and passed out at the beginning. Exercises must be written in pencil, so that errors can be erased. Handouts are packaged separately for copying. There are seven exercises associated with chapter 2. All the exercises are integral to the lesson and should be presented in sequence. The exercises are broken into separate units because it is recommended that the exercises are done after each small lesson is presented, and not as one long and complex exercise. An overhead was done of each exercise, as well as the answers. This way, we were able to review the exercise with the whole class to make sure they understood what the exercise was before they went ahead. For the answers, we had the overhead so we could point out, or they could point out any areas they had questions or problems with. Another way to do this is to have a participant review the exercise out loud straight from the book.

Budgets

Objectives

- Give participants an understanding of the budget process
- Allow participants practice in developing general sections of the budget



Key Terms

- Ordinance
- Appropriation
- Operating Revenues
- Capital Projects
- Expenditures
- Fiscal year
- Locally Generated
- Outside Sources
- General Fund
- Utility Fund

Overview

Overhead 26

What is a budget?

A budget is a plan for spending and receiving money for a set period of time known as a fiscal period. It is financial good sense to spend less money than you receive; otherwise you are in the “red”. Unbelievably, many people and organizations spend more money than they receive. Many people and organizations end in bankruptcy.

It is important to spend only on approved items. Budgets are approved only after public hearings and the budget plan is approved by the city council. This way the budget insures that public money is spent for the public good.

What is an ordinance?

Overhead 27

An ordinance is an official act adopted by the city council or assembly. Alaska Statutes require all municipal appropriations (budgets) be by ordinance.

What is an appropriation?

Overhead 28

An appropriation is an amount of money designated for a specific purpose. For example, if a city were to appropriate \$10,000 for the purchase of a new vehicle, then the money could not be used for payroll. If the council or assembly fail to appropriate enough funds to meet the budget, then the budget would need to be adjusted (amended) so that expenses are equal to or less than the appropriation.

Again, what is a budget ordinance?

Overhead 29

A budget ordinance is the official budget of a city adopted by the council as a non-code ordinance. The budget ordinance authorizes the city to receive and spend money in the amounts for the activities stated in the budget for a given period of time.

Why?

Overhead 30

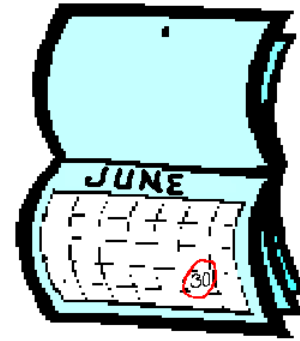
Why does a city/tribal council/non-profit prepare a budget? According to the State of Alaska **City Budget Manual**, there are five important reasons a budget is prepared:

1. Governmental accounting requires a budget be adopted on all governmental and enterprise funds.
2. The budget insures that the day-to-day operations of the organization follow the general direction given during the budget adoption.
3. The budget process allows everyone an opportunity to participate in spending decisions.
4. The budget insures that the organization has considered how much money is expected to be received and spent.
5. Alaska statute requires a budget be adopted and submitted to DCED.

It is Alaska State Law!

Fiscal year
Overhead 31

A fiscal year is a 12-month period for which an organization plans the use of its funds. The State of Alaska has a fiscal year that begins on July 1 and ends June 30th. The federal government has a fiscal year that begins on October 1 and ends September 30th. The city may have a fiscal year that is the same as the calendar year (for example North Pole, Alaska), or a fiscal year based on the state fiscal year, ending June 30th. Many tribal councils have a fiscal year based on the federal fiscal year, and their year ends on September 30. The important thing to remember is it is a 12-month period for which an organization plans the use of its funds.



Budget Process

So what does a city do to begin their new fiscal year? They create and pass a balanced budget. A balanced budget is one that has revenues equal to the expenditures.

Cities are required by law to prepare annual budgets. Sound financial management means that you plan your budget, and carry out the planned budget, making changes (budget amendments) as they are needed. The first step in the process is that the mayor or city manager and the bookkeeper along with staff estimate next year's revenues and expenditures. They create a draft budget. The draft is presented to the council who will review and approve the budget for a public hearing. Once the budget is approved and the public hearing held the budget is adopted in the form of a non-code budget ordinance (or appropriation ordinance).

A non-code ordinance is one that expires at the end of the year and is not written into the municipal code.

Alaska statutes require city councils to adopt an official budget, and all expenditures must be approved in the official budget.

Budget schedule
Overhead 32

Preparing the annual budget and going through the correct public process takes time. The process should start by April 1 in order for the budget to be approved and adopted into ordinance. The following proposed timetable is recommended by the Department of Community and Economic Development.

Proposed Timetable for Preparing a Municipal Budget for those Communities with a July 1 – June 30 Fiscal Year



April 1

Mayor directs treasurer to estimate revenues for next fiscal year. This includes estimating money not spent from the current fiscal year.

Council holds a budget work session to set spending priorities.



April 11

Mayor directs treasurer to prepare estimate of expenditures for next year.



April 25

Mayor present preliminary budget to the council.



May 1

Mayor prepares budget in final form.



May 15

Appropriations ordinance is introduced at city council meeting (first reading).

City council schedules dates of public hearing on appropriations ordinance.

City clerk posts notices of public hearing for at least five (5) days and in three (3) public places.



June 1

Council meeting is held for the purpose of conducting a public hearing on appropriations ordinance.

Council considers public comments and adopts appropriations ordinance.



June 30

If the appropriations ordinance has not been adopted by this date, the city can neither receive nor spend money in the coming fiscal year until the ordinance is adopted.



July 1

Beginning of the new fiscal year.

Ordinance Process

Overhead 33

Alaska Statute 29.35.100 states that the city council can establish the way a budget is prepared by the mayor and submitted to them. However the city elects to prepare the budget, it takes time. The following procedure is outlined in the City Budget Manual produced by Alaska Department of Community and Economic Development:



Overhead 34

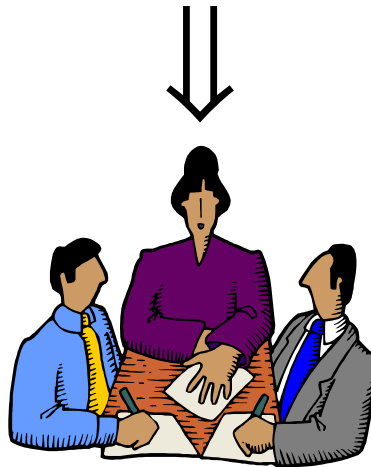
Step 1 – The mayor directs the treasurer to estimate the revenues the city will receive during the next year. The treasurer will prepare the estimate from last year's budget, last year's financial statements, budget revenue worksheets, and budget expense worksheets. This estimate should be submitted to the mayor at least 90 days before the beginning of the fiscal year (April 1 for communities with a June 30 year end).



Overhead 35

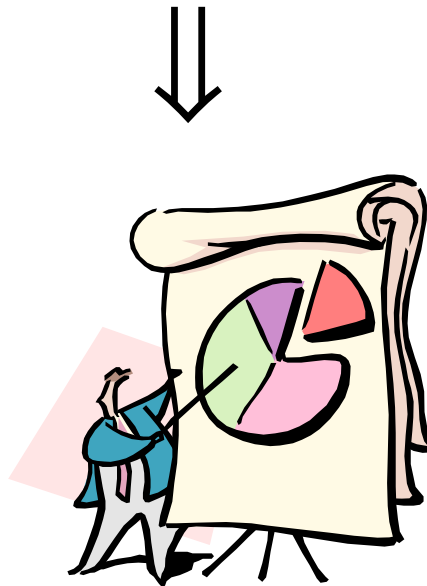
Step 2 – When the mayor has the estimates, he calls the council for a work session. The mayor and council members will use this work session to establish the city's priorities (i.e. improving street maintenance, replacing worn out equipment, keeping services at existing levels).

Overhead 36



Step 3 – The treasurer, with the assistance of staff and department supervisors, will develop estimates of expenses. This estimate is developed from the council’s priority list from the work session, last year’s expense records, and reports from department supervisors. **These estimates will be combined with the estimated revenues from Step 1 to form a draft budget.**

Overhead 37



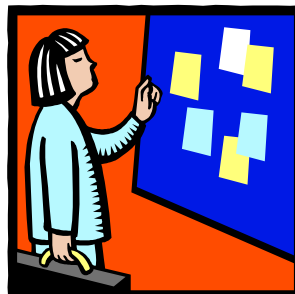
Step 4 – The draft budget is presented to the mayor by the treasurer. The mayor reviews the budget and presents it to the council as a “non-code ordinance.” It is called the “appropriation ordinance” or “budget ordinance.”

Overhead 38



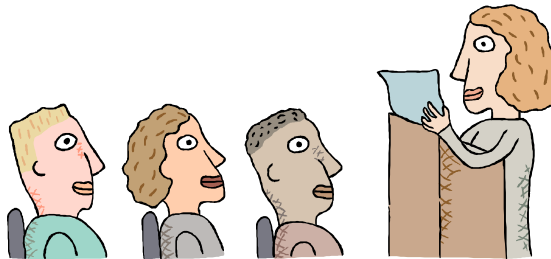
Step 5 – The council reviews the budget and makes whatever changes it desires. This is the “first reading” of the budget. Once all changes to the budget have been decided upon, the council votes in a council meeting to present it at a public hearing.

Overhead 39



Step 6 – The city clerk posts notices of the public hearing in three public locations for at least five days. The public hearing allows the council to get input from the public.

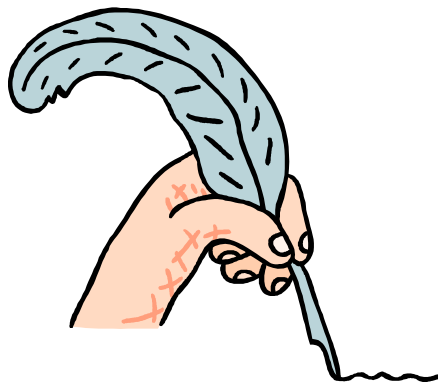
Overhead 40



Step 7 – After the public hearing, the council adopts the budget (with or without changes). This is called the “second reading of the budget”, and it is adopted as a non-code ordinance.



Overhead 41



Step 8 – The mayor and city clerk certify the appropriations ordinance after the council adopts it. One copy is filed in the city office. One copy must be sent to the Department of Community and Economic Development in order for the city to be eligible for state revenue sharing.

Budget appropriations ordinance
Overhead 42

Below is a sample of the budget appropriations ordinance. This ordinance is adopted and certified by the mayor and city clerk. The budget ordinance is a public record and the city clerk must make a copy for anyone wanting a copy during normal working hours.

<p style="text-align: center;">Budget Appropriations Ordinance Ordinance No. _____</p> <p style="text-align: center;">AN ORDINANCE FOR THE CITY/BOROUGH OF _____ PROVIDING FOR THE ESTABLISHMENT AND ADOPTION OF THE BUDGET FOR FISCAL YEAR 20____</p> <p style="text-align: center;">BE IT ENACTED BY THE COUNCIL/ASSEMBLY OF THE CITY/BOROUGH OF _____</p> <p>Section 1. Classification. This is a Non-Code Ordinance.</p> <p>Section 2. General Provisions. The budget document on the back of this form lists the authorized revenues and expenditures and the change in cash balances as part of the budget for the period July 1 through June 30 and made a matter of public record.</p> <p>Section 3. <u>Authorization and Appropriation.</u> The appropriations are adopted and authorized for the period July 1 through June 30 and are the budget for that period.</p> <p>Section 4. Effective Date. This ordinance becomes effective upon its adoption by the city council.</p> <p style="text-align: right;">First</p> <p>Reading _____</p> <p style="text-align: right;">Public</p> <p>Hearing _____</p> <p>ADOPTED by duly constituted quorum of the City Council/Borough Assembly of _____, Alaska, this _____ day of _____, 20 ____.</p> <p style="text-align: right;">_____ Mayor*</p> <p>ATTEST:</p> <p>_____ City/Borough Clerk</p> <p>Attachment: Approved Revenues and Expenditures. *or the Manager, if the Manager plan has been adopted.</p> <p><i>ORIGINAL - To be returned to the Department of Community and Business Development</i> <i>COPY - To be kept by city.</i></p>

Estimating Revenues and Expenditures

Estimating revenues **Overhead 43**

To estimate the amount of revenue the city or organization will receive in the coming year, look at the present financial statements. These financial statements will show how much has been received in the current year. If the financial statements are “year to date” and only reflect a portion of the year, then the total revenue will need to be computed for the entire year (annualized) based on revenues received to date.

The following sources of revenue may change from year to year, and very few come at the beginning of the fiscal year:

- The city receives money from the state in the form of revenue sharing, safe communities, PILT, and telephone co-op shares.
- The city may collect sales taxes from local businesses.
- The city may have contracts for airport maintenance, clinic lease, Alaska Village Electric Cooperative, gravel hauling, and other contracts.
- The city may have rentals of city owned property and equipment.
- The city may charge for services: water and sewer, washeteria, cable television, and garbage hauling.
- There are also other sources of revenue: fuel sales, bingo and pull tabs, city owned stores, fund raising, interest income, donations, grant administration, and any other fees or charges.

Operating revenues **Overhead 44**

All of the above types of revenue are known as “operating revenue”, meaning that they come from money the city “earns” or receives from its operations. These monies tend to be generated year after year, although the amounts may differ. Money that is from operating revenues, when it isn’t spent, can be saved or re-appropriated.



Capital or program revenues
Overhead 45

The city or organization often receives money from third parties (State of Alaska or federal government) for special programs or to build large capital structures. These monies are for a one-time project and will continue until the project or the structure is complete, then the fund is closed and any excess money returned to the provider. The money provided for a special project or capital structure has to be spent for that purpose only. Funds spent for anything else would be disallowed and the grantee (governing body) would be required to reimburse the grantor (state or federal government).

Steps in estimating revenues
Overhead 46

The first part of preparing a budget is to estimate the revenues. According to the *State of Alaska City Budget Manual*, there are three steps in estimating revenues:

- **Step one** - Compute the amount of carry-over money left from the prior year. The state has designed a worksheet and a sample is included in the worksheet section. (Taken from the **MFRS** and from the **City Budget Manual**.)
- **Step two** - Identify the source of revenues, whether from the state or federal government, grants, or from city operated enterprises.
- **Step three** - Estimate the revenues. Again, the state has designed a worksheet and a sample is included.

NOTE: Exercise 1 - Estimating Revenue Worksheet

Expenditures
Overhead 47

Prepare the expenditure budget by department, grant or enterprise. This is done in order to determine how much money is required to fund the police department, the fire department, and streets and roads, for example. Grants require that you budget and track expenditures separately for each grant.

Under each department or grant there are various expenditure accounts. These accounts include those listed below and any others that your organization may require.

Always use a separate worksheet for each department or grant.

Wages
Overhead 48

Wages are normally the largest expenditure of the organization and budgeting the approximate wage expense is the most important expense item. It is important to charge wages to the department, grant or enterprise they are paid from.

On the worksheet list each employee, the rate they are paid, and the usual number of hours they work per pay period. Multiple the rate times the hours times the number of pay periods. There are 52 weeks in a year. If you pay weekly, the number of pay periods would be 52. If you pay biweekly, every other Friday, then the number of pay periods would be 26. If you pay semi-monthly, each 15th and 31st, then the number of pay periods would be 24.

Add all the employee wages together in the department to compute the total gross wages.

Payroll taxes
Overhead 49

Payroll taxes are calculated as a percentage of gross wages. FICA tax (or Social Security) is 6.2% of gross wages. Medicare is 1.45% of gross wages. Employment Security Contribution is the amount established by the State on a contribution report. The percentage can vary from 2.85 % to more than 5% depending on the amount of turnover the city reports. Cities, federally recognized tribes, and community service non-profits do not pay FUTA, a federal unemployment tax.

Budget only the employer's portion of the payroll taxes, since the employee's portion is deducted from their gross wages and is already budgeted.

Public Employee Retirement System (PERS)

Overhead 50

If you have employees that participate in PERS and the city has contracted to match their contributions, or contribute to their accounts, then multiply their gross wages by the percentage of contribution. Again, only the city's portion should be budgeted since the employee's contribution is a deduction from their gross wages.

Council meeting fees / stipends

Overhead 51

To compute the amount to budget for meeting fees, estimate the number of meetings, times the members on the council, times the fee. For example if the council meets twice monthly, there are seven council members, and you routinely pay \$25 per meeting, the calculation would be $24 \times 7 \times 25 = \$4,200$.



Travel & per diem

Overhead 52

Travel and per diem expense is incurred for both employees (meaning full or part time paid city workers) and officials (elected representatives of the city such as the council members or mayor).

Travel expenses are transportation, per diem, and other. Transportation includes airfares, automobile mileage allowances, taxis and any other form of essential transportation expense incurred on official business. Per Diem is paid to an employee or official to cover the cost of lodging and meals.

Lodging is backed up with receipts and meals are usually a flat rate. Other charges may be telephone, parking fees (not parking tickets), emergency purchases of supplies, and other charges to complete official business.



All travel needs to be authorized in writing by the mayor, chief administrator, or the council by majority vote.

To budget travel and per diem expense, determine the number of trips necessary during the fiscal year and compute the cost of transportation, per diem and other expenses for each trip.

It is important to remember necessary training for operators and other personnel, in addition to trips by the mayor and council to conferences, etc.

Utilities (telephone, electricity, sewer & water)
Overhead 53

Estimate each of the above costs based on the actual costs of the current year. Consider any expected increases in rates or your usage. Call the various suppliers to find out if their rates are due to change. Remember also to allow for reduction in the Power Cost Equalization (PCE).

Fuel
Overhead 54

Fuel costs are very difficult to budget since the amount of fuel required is subject to many variables, particularly the weather. An extremely cold month or long, cold season can increase fuel costs significantly. Another variable is the fluctuating price of fuel. It is important to “pass along” the increased costs of fuel to the users, and to amend the budget for unexpected changes in the fuel expense.

You can estimate fuel by two methods: 1) fuel costs are based on the historical cost of fuel and again are raised on a percentage increase over the prior year cost; or 2) prepare a schedule of the number of gallons you expect to use and multiply it by the cost per gallon.

Office supplies
Overhead 55

The first thing to do when estimating office supplies is to check the amount of supplies you presently have on hand. Carefully analyze any items that are expensive, or must be purchased in bulk, but not bought regularly (such as preprinted letterhead, preprinted envelopes, checks for the various bank accounts, forms or booklets.)



Estimate the amount of supplies you will need for the next year. Remember to consider the copier, computers, and cleaning supplies when you are estimating your total supply purchases.

Postage & freight
Overhead 56

Estimate postage and freight on current costs. It is important to consider rate increases. If the postal rate increases, divide the increase amount by the original amount and this will give you the percentage increase. Multiply the prior budgeted amount by the percentage increase to give the new increased amount.

Legal fees
Overhead 57

Legal fees are not necessarily consistent from year to year. To best estimate legal fees, consider any expected legal costs you anticipate for the next year.

Accounting / auditing fees
Overhead 58

Like legal fees, accounting and auditing fees are not necessarily consistent. For second-class cities, audits are required when certain levels of funds are received from the state or the federal government. If the city receives more than \$300,000 of applicable funding, then a single audit is required. Otherwise an audit may not be required. If an audit is required, especially for one grant, insure that the costs of completing the audit are included in the grant budget. The audit cost should include travel.

Second class cities are otherwise required to do a certified financial statement of revenues and expenditures.

Equipment purchases
Overhead 59

The best way to estimate equipment purchases is to list all equipment that you plan to purchase, call vendors to approximate the costs and include freight, special supplies (such as toners and print cartridges), and maintenance agreements.

Repairs and maintenance
Overhead 60

Estimate repairs and maintenance based on current costs plus any planned repairs you are aware of. Major repairs and maintenance can be a budget “buster”.



Vehicle expenses (fuel, tires, repairs)

Overhead 61

Base the budget for vehicle expenses on the expected amount you estimate for fuel, tires, batteries, insurance, licenses, and other vehicle expenses.



Dues and membership fees

Overhead 62

List the name and the amount of each item. Estimate the expense for next year based on prior year costs plus any expected increases.

Insurance

Overhead 63

Insurance expense is based on the number and amount of coverage. Your insurance provider can estimate future rates.

Penalties and interest

Overhead 64

Try to avoid penalties and interest. It is a wasted expense, and is incurred because you did not submit payroll tax reports or payments on time. NSF penalties can be costly, and again should be avoided by reconciling the bank account regularly and not writing checks when the funds are not available.

Election judges

Overhead 65

Schedule the number of elections you will be required to hold for the coming year, times the numbers of election judges required, times the amount each judge is paid. Enter this computation on the other expenditures worksheet.

Chemicals

Overhead 66

Contact your operator and remote maintenance worker to see what chemicals are needed for your system. All systems use chlorine and this is used as an example.

Chlorine from a typical vendor costs \$200 for 100 lbs. FOB (Freight on Board) Anchorage. Freight to your community needs to be added on to this cost. This should supply enough chlorine for the year. If your community has a member agreement with the Alaska Native Tribal Health Consortium (ANTHC), Alaska Utility Supply Center Program (AUSC) this cost is less. Chlorine for 100 lbs. from ANTHC costs \$110 for 100 lbs. FOB Anchorage. Freight to your community needs to be added on to this.

Critical spare parts
Overhead 67

Contact your operator and remote maintenance worker (RMW) to see what critical spare parts are necessary for your system. We will use the following as a typical example.

Chemical Pump Parts:

Make LMI
Model Z101-151 \$800 GPD 5

Furnace Parts:

Primary control relay \$52.59
Transformer \$40
Fuel pump \$76.70
Box of oil nozzles \$39
Box of fuel filters \$36
Two hydraulic pumps \$346 up to \$670 (depending on size)
Spare electrodes 6 Cad Cells \$11.72
Drum of polypropylene glycol \$454.48

A total of \$2,180.49 will need to be budgeted for critical spare parts.

Water testing
Overhead 68

As with the parts and chemicals, water testing varies according to the type of system you have. You will need to contact your operator and RMW for more information on the testing needed for the type of system you have.

Every system requires a Total Chloroform Bacteria sample be done monthly. We will use this as an example. The cost of the test kit may vary depending on how and when you pay for the year. An average cost is \$24 for the kit and \$40 for the freight. This computes to an average cost per year of \$768 to be included in the budget.

NOTE: Exercise 2 - Completing Revenue Budget Forms

City Budget Manual
Overhead 69

The State of Alaska Department of Community and Economic Development publishes the *City Budget Manual*. The manual has step-by-step instructions on completing the various worksheets and forms required in the budget process. There are also many examples to follow. The budget worksheets and budget forms presented below are from the manual.

The **Budget Manual** is provided to incorporated communities on an annual basis.

The same information is available in the **Model Financial Recordkeeping System (MFRS)**.

Estimates of revenues, carryover cash and expenditures are first computed on **worksheets**. Separate worksheets are used to identify revenues and expenditures. A separate expenditure worksheet is prepared for every department, grant and enterprise. Estimates of carryover cash are first computed on a worksheet.

Worksheet information is then transferred to the **Budget sheets** identified by department, grant and enterprise for expenditures and by source for revenues. Revenue sources are identified by budgeted operating revenues that are locally generated, budgeted operating revenues from outside sources, and budgeted operating revenues for capital/special projects from outside sources.

Once this information is on the appropriate Budget Sheet the next step is to summarize the information on the **Budget Summary Sheets** located at the end of the Budget manual.

Use of the worksheets, budget sheets and budget summary sheets allows you to sort out money coming into and exiting your entity. It provides a basis for reporting on the same to your local government that makes sense, is understandable and explainable.

Budget worksheets are used to prepare estimates of revenues and expenses and to sort them. They document how the budgets were computed and provide information to complete a budget for department, enterprise, or grant. Any official engaged in preparing a budget should acquire this manual before beginning budget preparation.

Completing the Budget Worksheets

Overhead 70

Budget worksheets may be used to present estimates of revenues and expenses to the council and the public. Their purpose is to provide documentation from payroll records, timesheets, purchase orders, and other source documents showing how the budget amounts were computed. There are four budget worksheets presented below:

- 1) Carryover cash balance worksheet – used to calculate carryover money left over from last year.
- 2) Budget worksheet for estimating revenues
- 3) Budget worksheet for estimating wage expense
- 4) Budget worksheet for estimating other expenditures



Budget worksheet for estimating cash balance carryover
Overhead 71

The first step in identifying revenues is to compute the amount of cash and other resources left over from last year. The following worksheet is used to compute this carryover cash balance.

Carryover Cash Balance Worksheet

Investment

List Each Investment

and the Balance

CD	12-55-789	\$ 10,000
CD	13-66-891	\$ 10,000
CD	56-23-151	\$ 5,000

Total >>>>>>>>

Investment

\$ 25,000

Balance

(Include on Line 1 Below)

Checking Account Balance

List the Account Number and Cash

Balance of Every Checking Account

General	15126	\$ 11,864
Clinic	23891	\$ 24,833
S&W	55891	\$ 16,758
Bingo	45897	\$ 8,423

Total >>>>>>>>

Checking Account

\$ 61,878

Balance

(Include on Line 2 Below)

Carryover Cash Balance Summary

1. Total Investment Balance	\$ 25,000
2. Total Checking Account Balance	+ \$ 61,878
3. Total Anticipated Revenues for remainder of fiscal year	+ \$ 86,878
4. Total Anticipated Expenditures for remainder of fiscal year	- \$ 84,800
5. Total Carryover Cash Balance	= \$ 85,457

NOTE: Exercise 3 - Completing Carryover Cash

Budget worksheet for estimating revenues
Overhead 72

The budget worksheet for estimating revenues is used to show how yearly revenues were estimated.



Budget Worksheet		
Estimating Revenue FY <u>03</u>		
Revenue Category	Show your computation	Amount
AVEC	\$3,100 per month x 12 months	\$ 37,200
HIS Clinic	\$1,920 per month x 12 months	\$ 23,040
Water & sewer	95 customers x \$95 fee x 12 mths	\$ 108,300
Fuel sales	Gas \$1.85 x 7,280 gallons	\$ 13,468
	#2 heating oil \$2.10 x 4,280 gal	\$ 8,988
Bingo/pull tab	50 wks x 4 days x \$30 average	\$ 6,000
Copies	676 x .75 each	\$ 507
Equip rental	70 hours x \$50 per hour	\$ 3,500
Building rent	Tribal council \$400 mth x 12	\$ 4,800
	Summer workers \$215 x 6	\$ 1,290
Total Revenue		\$ 207,093

NOTE: Exercise 4 - Estimating Revenues

Completing the revenue budget forms
Overhead 73

When the revenue **budget worksheets** are completed and various revenue items are transferred from the **budget worksheets** to the budget revenue forms in the **budget handbook**.

BUDGETED OPERATING REVENUES		LOCALLY GENERATED		
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET	Budget Summary Line Reference
Taxes:	Sales Taxes	\$	\$	
	Sales Tax Penalties & Interest	\$	\$	
	Property Taxes	\$	\$	
	Property Tax Penalties & Interest	\$	\$	
	Hotel/Motel Taxes	\$	\$	
	Hotel Tax Penalties & Interest	\$	\$	
	Motor Vehicle Taxes	\$	\$	
	Other:	\$	\$	
	Other:	\$	\$	
	Total Taxes	\$	\$	Enter on line 1
Special Assessments:		\$	\$	Enter on line 2
Licenses and Permits:		\$	\$	Enter on line 3
Fines and Penalties:		\$	\$	Enter on line 4
Contracted Services:	AVEC Reimbursement	\$ 42,005	\$ 37,200	
	IHS Health Clinic Lease	\$ 22,582	\$ 23,040	
	Airport Maintenance Contract w/State	\$	\$	
	Road Maintenance Contract w/State	\$	\$	
	Jail Contract w/State	\$	\$	
	Other:	\$	\$	
	Other:	\$	\$	
	Total Contracted Services	\$ 64,587	\$ 60,240	Enter on line 5
Service Charges:	Photocopies	\$ 232	\$ 507	
	Other:	\$	\$	
	Other:	\$	\$	
	Total Service Charges	\$ 232	\$ 507	Enter on line 6
Enterprises:	Electric Utility: Customer Payments	\$	\$	
	Electric Utility: PCE Subsidy	\$	\$	
	Water / Sewer	\$ 129,605	\$ 108,300	
	Washeteria / Sauna	\$	\$ 8,334	
	Garbage Collection Services	\$	\$	
	Landfill / Dump Fees	\$	\$	
	Fuel Sales	\$ 22,426	\$ 22,456	
	Harbor / Dock Charges	\$	\$	
	Cable TV	\$	\$	
	Bingo / Pull Tab Receipts	\$ 2,148	\$ 6,000	
	Mass Transit	\$	\$	
	Phone Utility	\$	\$	
	Other: Pop, candy, chips	\$	\$	
	Other: Copies	\$	\$	
	Total Enterprise Revenues	\$ 154,179	\$ 145,090	Enter on line 7
Rentals:	Building Rentals	\$ 8,500	\$ 4,800	
	Equipment Rentals	\$ 3,340	\$ 3,500	
	Other:	\$	\$	
	Total Rentals	\$ 11,840	\$ 8,300	Enter on line 8



Overhead 74

The budgeted operating revenues (locally generated) form is two pages long, with the total amount computed at the bottom of the second page. The form below continues revenue that is generated by the municipality.

BUDGETED OPERATING REVENUES			LOCALLY GENERATED	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET	Budget Summary Line Reference
Leases:	Land Leases	\$	\$	Enter on line 9
	Equipment Leases	\$	\$	
	Other:	\$	\$	
	Total Leases	\$ -	\$ -	
Sales:	Land Sales	\$	\$	Enter on line 10
	Gravel Sales	\$	\$	
	Pop Sales/Concessions	\$	\$	
	Other:	\$	\$	
Total Sales		\$ -	\$ -	
Other Revenues:	Interest Earnings	\$	\$	Enter on line 11
	Other:	\$ 15,016	\$ 1,500	
	Other: Savings	\$ 5,000	\$ 5,000	
	Other:	\$	\$	
Total Other		\$ 20,016	\$ 6,500	
		\$	\$	
		\$	\$	
TOTAL LOCALLY GENERATED REVENUES		\$ 250,934	\$ 212,303	Enter on line 12

There are additional revenue forms to report estimated revenues from outside sources (the State of Alaska, federal government, or other outside grantors.)

Unlike the locally generated amounts, these do not originate from the worksheet computation, but are obtained from each respective agency.

Budget revenue form (from outside sources)
Overhead 75

Some revenues are restricted to supporting certain services for facilities. For example, grant funds are usually designated for certain activities and cannot be used to fund anything else. Municipalities that receive State Revenue Sharing funds for road maintenance and health facilities must meet certain program requirements. Monies that have no specific requirements for their use are called unrestricted general funds.

BUDGETED OPERATING REVENUES		OUTSIDE SOURCES	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
		Budget Summary Line Reference	
Shared Revenues From The State of Alaska:	State Revenue Sharing	\$ 29,145	\$ 29,076
	Municipal Assistance	\$ 4,805	\$ 4,804
	Raw Fish Tax Refunds	\$	\$
	Aviation Fuel Tax Refunds	\$	\$
	Telephone / Electric Co-op Tax Refund	\$ 370	\$ 300
	Amusement / Gaming Tax Refunds	\$	\$
	Liquor License Tax Refunds	\$	\$
	Other:		
	Other:	\$	\$
Total State Shared Revenues		\$ 34,320	\$ 34,180 Enter on line 13
State of Alaska Operating Grants:	Library Grant	\$	\$
	Suicide Prevention Grant	\$	\$
	JTPA Grant	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Other:	\$	\$
Total State Operating Grants		\$ -	\$ - Enter on line 14
Revenues/Grants From The Federal Gov't:	Payment in Lieu of Taxes	\$ 17,594	\$ 15,135
	National Forest Receipts	\$	\$
	Operating Grant:	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Other:	\$	\$
Total Federal Revenues		\$ 17,594	\$ 15,135 Enter on line 15
Other Outside Revenues:	Borough:	\$	\$
	Other:	\$	\$
	Other:	\$	\$
Total Other Outside Revenues		\$ -	\$ - Enter on line 16
TOTAL OUTSIDE OPERATING REVENUES		\$ 51,914	\$ 49,315 Enter on line 17
TOTAL FY 02 OPERATING REVENUES		\$ 302,848	\$ 261,618 Enter on line 18

NOTE: Exercise 5- Revenue Budget Forms

Budgeting Admin/Finance Expenditures

Overhead 76

Worksheets for estimating wages and other expenses are on **two** worksheet forms. Information on **both** worksheets is used to complete a budget sheet by department, enterprise or grant.

- Budget worksheets for estimating **wage expenses**.
- Budget worksheets for estimating **other expenditures**.

Budget worksheet for estimating wage expense on Admin/Finance

Use the budget worksheet to estimate wage expense by department or grant. The example amounts were presented to show how the worksheet should be completed.

Budget Worksheet for Cities Participating in Social Security						
Payroll and Payroll Costs						
Name of Department and/or Grant				<u>Admin/Finance</u>		
Job Title	Hourly pay rate	X	Hours per week	X	No. of weeks	= Total
Admin	\$ 12.00	X	10	X	52	= \$ 6,240.00
Clerk	\$ 10.00	X	25	X	52	= \$ 13,000.00
Janitor	\$ 7.50	X	4	X	52	= \$ 1,560.00
		X		X		=
		X		X		=
		X		X		=
Total Gross Wages (1)						\$ 20,800.00
Compute Payroll Taxes						
Employer's S.S. rate	<u>6.2 %</u>	X	<u>20,800</u>	=	(2)	<u>\$ 1,289.60</u>
Total Gross Wages						
Employer's Medicare rate	<u>1.45%</u>	X	<u>20,800</u>	=	(3)	<u>\$ 301.60</u>
Total Gross Wages						
Employer's ESC rate	<u>3.25%</u>	X	<u>20,800</u>	=	(4)	<u>\$ 676.00</u>
Total Gross Wages						
Worker's Compensation	<u>2.75%</u>	X	<u>20,800</u>	=	(5)	<u>\$ 572.00</u>
Total Gross Wages						
PERS (Employer's rate) (if applicable)	<u>3.0 %</u>	X	<u>20,800</u>	=	(6)	<u>\$ 624.00</u>
Total Gross Wages						
ADD (1) through (6) for Total Payroll Costs:						\$ 24,263.20

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

NOTE: Exercise 6 - Budget Worksheet Payroll

Budget worksheet for estimating other expenses on Admin/Finance
Overhead 77

Use the budget worksheet of other expenditures to figure the budget for any other expenditure anticipated during the next fiscal year. Enter the department and or grant on the budget worksheet and label it for whatever department/grant or enterprise you are doing the worksheets for.

Budget Worksheet		
Other Expenditures FY <u>2003</u>		
General Fund		
Name of Department and/or Grant <u>Administration & Finance</u>		
Expenditure Category	Show your computation	Budget Amount
Telephone	\$250 per month x 12	\$ 3,000
Electricity	\$500 per month x 12	\$ 6,000
Water & Sewer	\$150 per month x 12	\$ 1,800
Fuel Oil	\$200 per month x 12	\$ 2,400
Office Supplies	\$168.15 per month x 12	\$ 2,018
Ins/Bonding	\$98 per month x 12	\$ 1,176
Member Dues	\$100 per month x 12	\$ 1,200
Other Contractual	\$167.65 per month x 12	\$ 2,012
Total Expenditures		\$ <u>19,606</u>

NOTE: Exercise 7 - Completing Other Expenditure Worksheet

Transferring admin/finance expenditures from worksheets to budget forms
Overhead 78

When all expenditure amounts for the administration and finance department have been calculated, transfer the amounts to the budgeted operating expenditures administration and finance form. The payroll worksheet amounts are reflected in the personal service section of the form, the amounts from the other expenditures worksheet are shown in the other appropriate sections.

BUDGETED OPERATING EXPENDITURES		ADMINISTRATION & FINANCE	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$ 17,700	\$ 20,800
	Stipends	\$	\$
	Payroll Taxes	\$ 5,146	\$ 2,268
	Workers Compensation	\$ 104	\$ 572
	Retirement / Pension	\$ 2,700	\$ 624
	Other:	\$ 769	\$ 769
	Other:	\$ 1,830	\$ 1,104
	Total Personal Services	\$ 28,249	\$ 26,137
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Travel	\$ -	\$ -
Facility Expenses:	Telephone	\$ 3,558	\$ 3,036
	Rent	\$	\$
	Electricity	\$ 4,712	\$ 6,000
	Water & Sewer	\$ 1,800	\$ 1,800
	Fuel Oil	\$ 3,372	\$ 2,400
	Repairs / Maintenance (buildings)	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Facility Expenses	\$ 13,442	\$ 13,236
Supplies:	Office & Clerical Supplies	\$ 3,559	\$ 2,000
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Supplies	\$ 3,559	\$ 2,000
Equipment:	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Equipment	\$ -	\$ -
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$ 1,170	\$ 1,170
	Membership Dues & Fees / Subscriptions	\$ 1,153	\$ 1,200
	Bank Charges	\$	\$
	Contractual: Legal Services	\$	\$
	Contractual: Accounting / Audit Services	\$ 2,500	\$
	Other Contractual: Services	\$ 2,871	\$ 2,000
	Other:	\$	\$
	Other:	\$	\$
	Total Other	\$ 7,694	\$ 4,370
TOTAL ADMINISTRATION & FINANCE BUDGET		\$ 52,944	\$ 45,743

Enter on line 23 of Budget Summary

Other general fund forms (Council and Health Facility)
Overhead 79

Although the worksheets are not presented for two other general fund departments, the budget forms for council and health facility are shown. The same process that went into creating the administration and finance form is required for each of these forms.

BUDGETED OPERATING EXPENDITURES		COUNCIL	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$ 9,253	\$ 13,624
	Stipends	\$	\$
	Payroll Taxes	\$ 2,253	\$ 1,441
	Workers Compensation	\$ 66	\$ 66
	Retirement / Pension	\$ 1,291	\$ 708
	Other:	\$ 3,290	\$ 2,240
	Other:	\$ 3,523	\$ 1,800
	Total Personal Services	\$ 19,676	\$ 19,879
Travel:	Airfare	\$ 6,500	\$ 2,400
	Per Diem	\$ 5,004	\$ 2,200
	Training, Workshop & Conference Fees	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Travel	\$ 11,504	\$ 4,600
Facility Expenses:	Telephone	\$	\$
	Rent	\$	\$
	Electricity	\$	\$
	Water & Sewer	\$	\$
	Fuel Oil	\$	\$
	Repairs / Maintenance (buildings)	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Facility Expenses	\$ -	\$ -
Supplies:	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Supplies	\$ -	\$ -
Equipment:	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Equipment	\$ -	\$ -
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$ 1,112	\$ 1,112
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Other Contractual:	\$	\$
	Other:	\$	\$
	Other:	\$	\$
	Total Other	\$ 1,112	\$ 1,112
TOTAL COUNCIL BUDGET		\$ 32,292	\$ 25,591

Enter on line 24 of Budget Summary

Overhead 80

Other departments (when applicable) in the general fund that require budget forms are: police, fire, streets and roads, airport, garbage and landfill, parks and recreations, harbors and docks, and any other department within the municipality.

BUDGETED OPERATING EXPENDITURES		HEALTH FACILITY	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$ 8,577	\$ 7,330
	Stipends	\$	\$
	Payroll Taxes	\$ 1,765	\$ 776
	Workers Compensation	\$ 160	\$ 160
	Retirement / Pension	\$	\$
	Other: _____	\$ 261	\$ 261
	Other: _____	\$ 354	\$ 1,600
	Total Personal Services	\$ 11,117	\$ 10,127
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Travel	\$ -	\$ -
Facility Expenses:	Telephone	\$ 4,065	\$ 3,360
	Rent	\$	\$
	Electricity	\$ 340	\$ 432
	Water & Sewer	\$ 900	\$ 900
	Fuel Oil	\$ 3,388	\$ 1,750
	Repairs / Maintenance (buildings)	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Facility Expenses	\$ 8,693	\$ 6,442
Supplies:	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other: Janitorial Supplies	\$ 1,791	\$ 2,000
	Other: _____	\$	\$
	Total Supplies	\$ 1,791	\$ 2,000
Equipment:	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Equipment	\$ -	\$ -
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$ 684	\$ 684
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Other Contractual: _____	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Other	\$ 684	\$ 684
TOTAL HEALTH FACILITY BUDGET		\$ 22,285	\$ 19,253

Enter on line 34 of Budget Summary

The general fund budget in QuickBooks report
Overhead 81

When the budget is entered into the computer accounting program QuickBooks, the budget report will be in the form shown below. You will notice that all the revenues are reflected against the different funds where they apply rather than reported separately as in the state budget forms.

General Fund Budget Overview				
	Administration & Finance (General Fund)	Council (General Fund)	Health Facility (General Fund)	Total General Fund
Income				
Contracted Services				
IHS Health Clinic Lease			23,040.00	23,040.00
Total Contracted Services			23,040.00	23,040.00
Service Charges				
Photocopies	507.00			507.00
Total Service Charges	507.00			507.00
Rentals				
Building Rentals	6,090.00			6,090.00
Total Rentals	6,090.00			6,090.00
Other Revenues				
Interest Earnings	5,000.00			5,000.00
Other	1,500.00			1,500.00
Total Other Revenues	6,500.00			6,500.00
Shared Rev from State of AK				
State Rev Sharing	29,076.00			29,076.00
Municipal Assistance	4,804.00			4,804.00
Revenues Grants Fed Govt.				
PILT	15,135.00			15,135.00
Total Outside Operating Rev	49,015.00			49,015.00
Total Revenue	62,112.00		23,040.00	85,152.00
Expense				
Personal Services				
Salaries	20,800.00	13,624.00	7,330.00	41,754.00
Stipends		0.00		0.00
Payroll Taxes	2,268.00	1,441.00	776.00	4,485.00
Workers Compensation	572.00	66.00	160.00	798.00
Retirement/Pension	0.00	0.00		0.00
Other Personal Services	0.00	0.00	0.00	0.00
Total Personal Services	23,640.00	15,131.00	8,266.00	47,037.00
Travel				
Airfare		2,400.00		2,400.00
Per Diem		2,200.00		2,200.00
Total Travel		4,600.00		4,600.00
Facility Expense				
Telephone	3,000.00		3,360.00	6,360.00
Electricity	6,000.00		432.00	6,432.00
Water & Sewer	1,800.00		900.00	2,700.00
Fuel Oil	2,400.00		1,750.00	4,150.00
Total Facility Expense	13,200.00		6,442.00	19,642.00
Supplies				
Office & Clerical Supplies	2,018.00			2,018.00
Other Supplies			2,000.00	2,000.00
Total Supplies	2,018.00		2,000.00	4,018.00
Other Operating Expenses				
Insurance & Bonding	1,176.00	0.00	684.00	1,860.00
Membership Dues & Fees/Subsc	1,200.00			1,200.00
Other Contractual	2,012.00			2,012.00
Total Other Operating Expenses	4,388.00	0.00	684.00	5,072.00
Total Expense	43,246.00	19,731.00	17,392.00	80,369.00
Net Income	18,866.00	-19,731.00	5,648.00	4,783.00

Budgeting Sewer and Water Expenditures

Overhead 82

Completing the payroll budget worksheet

Use the budget worksheet to estimate wage expense for the sewer and water system. Remember office staff should be included in this budget for the estimated time they spend on sewer and water billings, collections and reports.

Budget Worksheet for Cities Participating in Social Security						
Payroll and Payroll Costs						
Name of Department and/or Grant <u>Sewer & Water Utility</u>						
Job Title	Hourly pay rate	X	Hours per week	X	No. of weeks	= Total
Admin.	\$ 12.50	X	2	X	52	= \$ 1,300.00
Clerk	\$ 11.00	X	2	X	52	= \$ 1,144.00
Janitor	\$ 8.25	X	16	X	52	= \$ 6,864.00
Operat I	\$ 14.00	X	30	X	52	= \$ 21,840.00
Alternate	\$ 14.00	X	30	X	52	= \$ 21,840.00
		X		X		=
Total Gross Wages (1)						\$ 52,988.00
Compute Payroll Taxes						
Employer's S.S. rate	<u>6.2 %</u>	X	<u>52,988</u>	=	(2)	\$ 3,285.26
Total Gross Wages						
Employer's Medicare rate	<u>1.45%</u>	X	<u>52,988</u>	=	(3)	\$ 768.33
Total Gross Wages						
Employer's ESC rate	<u>3.25%</u>	X	<u>52,988</u>	=	(4)	\$ 1,722.11
Total Gross Wages						
Worker's Compensation	<u>2.75%</u>	X	<u>52,988</u>	=	(5)	\$ 1,457.17
Total Gross Wages						
PERS (Employer's rate)	<u> </u>	X	<u>N/A</u>	=	(6)	\$ -0-
(if applicable) Total Gross Wages						
ADD (1) through (6) for Total Payroll Costs:						\$ 60,220.86
NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.						

Preparing the budget worksheet for sewer and water “other” expenses
Overhead 83

Use this worksheet to compute the other expenditures of the sewer and water system.

Budget Worksheet		
Other Expenditures FY <u>2003</u>		
Enterprise Fund		
Name of Department and/or Grant <u>Sewer & Water</u>		
Expenditure Category	Show your computation	Budget Amount
Airfare	3 trips Fai@140, 1 trip Anc@230	\$ 650.00
Per Diem	5 days @ 100	\$ 500.00
Training	2 @ 125	\$ 250.00
Telephone	\$25 per month X 12	\$ 300.00
Water Testing	\$75 per month X 12	\$ 900.00
Electricity	\$100 per month X 12	\$ 1,200.00
Fuel Oil	\$500 per month X 12	\$ 6,000.00
Repairs	\$1,000 per month X 12	\$ 12,000.00
Other Facility	\$833 per month X 12	\$ 9,996.00
Office Supplies	\$42 per month X 12	\$ 504.00
Postage	\$17 per month X 12	\$ 204.00
Copier Supplies	\$25 per month X 12	\$ 300.00
Chemicals	\$13 per month X 12	\$ 156.00
Vehicle Maint.	\$250 per month X 12	\$ 3,000.00
Other Equip.	\$415 per month X 12	\$ 4,980.00
Critical Spare Parts	\$167.46 per month x 12	\$ 2,009.52
Interest/Late	\$7.50 per month X 12	\$ 90.00
Ins/Bonding	\$40 per month X 12	\$ 480.00
Member Dues	\$40 per month X 12	\$ 480.00
Bank Charges	\$1.95 per month X 12	\$ 23.40
Total Expenditures		<u>\$ 44,022.92</u>

Sewer and water expenditures transferred to budget form
Overhead 84

When expenditure amounts for sewer and water have been calculated, the amounts need to be transferred to the budget form.

BUDGETED OPERATING EXPENDITURES		WATER & SEWER	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$ 34,917	\$ 33,488
	Stipends	\$ 3,000	\$ 3,000
	Payroll Taxes	\$ 4,267	\$ 3,650
	Workers Compensation	\$ 2,666	\$ 2,009
	Retirement / Pension	\$	\$ 1,005
	Other:	\$	\$
	Other:	\$	\$
	Total Personal Services	\$ 44,850	\$ 43,152
Travel:	Airfare	\$ 650	\$ 650
	Per Diem	\$ 500	\$ 500
	Training, Workshop & Conference Fees	\$ 250	\$ 250
	Other:	\$	\$
	Other:	\$	\$
	Total Travel	\$ 1,400	\$ 1,400
Facility Expenses:	Telephone	\$ 300	\$ 300
	Rent	\$	\$
	Electricity	\$ 1,200	\$ 1,200
	Water & Sewer	\$	\$
	Fuel Oil	\$ 6,180	\$ 6,000
	Repairs / Maintenance (buildings)	\$ 12,000	\$ 12,000
	Other:	\$ 5,000	\$ 5,000
	Other:	\$ 5,000	\$ 5,000
	Total Facility Expenses	\$ 29,680	\$ 29,500
Supplies:	Office & Clerical Supplies	\$ 500	\$ 500
	Postage Supplies	\$ 215	\$ 200
	Copier Supplies	\$ 300	\$ 300
	Other: Chemicals	\$ 388	\$ 154
	Other:	\$	\$
	Total Supplies	\$ 1,403	\$ 1,154
Equipment:	Equipment	\$ 5,000	\$ 5,000
	Vehicle / Equipment Maintenance	\$ 3,000	\$ 3,000
	Other: Critical Spare Parts	\$ 975	\$ 2,010
	Other:	\$	\$
	Total Equipment	\$ 8,975	\$ 10,010
Other Operating Expenses:	Interest & Late Charges	\$ 100	\$ 100
	Insurance & Bonding	\$ 500	\$ 500
	Membership Dues & Fees / Subscriptions	\$ 500	\$ 500
	Bank Charges	\$ 25	\$ 25
	Contractual Services: Water Testing	\$ 1,800	\$ 1,900
	Other: Renewal & Replacement	\$ 6,000	\$ 6,000
	Other: Capital Replacement	\$ 10,000	\$ 10,000
	Total Other	\$ 18,925	\$ 19,025
TOTAL WATER & SEWER BUDGET		\$ 105,233	\$ 104,241

Enter on line 31 of Budget Summary

NOTE: Exercise 8 - Transferring Information from Worksheets to Expenditure Budget Forms

Summary Budget Forms

Overhead 85

When all the individual budget forms are completed the totals are copied to the appropriate summary sheets. The summary sheets present the overall effect of the numerous budget departments, line items, and various revenues. Using the summary sheets, the organization can effectively plan its operations and programs for the coming year.

Budget summary - revenues

FY 03 BUDGET SUMMARY - REVENUES			
LOCALLY GENERATED REVENUES:			Line reference
Tax Revenues	\$		1
Special Assessments	\$		2
Licenses & Permits	\$		3
Fines & Penalties	\$		4
Contracted Services	\$	60,240	5
Service Charges	\$	507	6
Enterprise Revenues	\$	136,806	7
Rentals	\$	9,590	8
Leases	\$		9
Sales	\$		10
Other Local Revenues	\$	6,500	11
Total Locally Generated Revenues	\$	213,643	12 Subtotal
OUTSIDE REVENUE SOURCES:			
State of Alaska Shared Revenues	\$	49,315	13
State Operating Grants	\$		14
Federal Operating Revenues & Grants	\$		15
Other Outside Revenues	\$		16
Total Outside Revenues	\$	49,315	17 Subtotal
TOTAL FY 03 OPERATING REVENUES	\$	262,958	18 Total
CAPITAL / SPECIAL PROJECT REVENUE SOURCES:			
State-Funded Capital/Special Projects	\$	25,000	19
Federal Capital/Special Projects	\$		20
Total Revenues for Capital / Special Projects	\$	25,000	21 Subtotal
TOTAL ALL FY 03 REVENUES	\$	287,958	22 Total
Prior-Year Cash Balance	\$	85,457	
TOTAL CASH AVAILABLE FY 03	\$	373,415	Total

Budget Summary - expenses
Overhead 86

FY 03 BUDGET SUMMARY - EXPENDITURES			
			Line reference
Administration and Finance	\$ 46,589		23
Council	\$ 25,591		24
Planning and Zoning	\$		
Police	\$ 500		25
Fire	\$ 300		26
Ambulance	\$		
Other Public Safety	\$		
Streets and Roads	\$ 5,800		27
Airport	\$		28
Harbor and Dock	\$ 40		29
Electric Utility	\$ 26,729		30
Water and Sewer	\$ 104,241		31
Washeteria	\$		32
Garbage and Landfill	\$		33
Fuel Sales	\$		
Cable TV	\$		
Bingo and Pull Tabs	\$		
Mass Transit	\$		
Phone Utility	\$		
Other Enterprise:	\$		
Other Enterprise:	\$		
State Operating Grants	\$ 25,000		
Health Facility	\$ 19,253		34
Other Health and Welfare Services	\$		
Parks and Recreation	\$ 2,147		
Library	\$		
Museum and Cultural	\$		
Other Public Service:	\$		
Other: Huslia Gas & Oil	\$ 22,431		
Other:	\$		
TOTAL FY 03 OPERATING EXPENDITURES	\$ 278,621		35 Total
CAPITAL / SPECIAL PROJECT EXPENDITURES:			
State-Funded Capital/Special Projects	\$		36
Federal Capital/Special Projects	\$		37
Total Capital / Special Projects Expenditures	\$ -		Subtotal
TOTAL ALL FY 03 EXPENDITURES	\$ 278,621		Total

NOTE: Exercise 9 - Completing Budget Summary Forms

Amending the Budget
Overhead 87

A budget is a plan, and sometimes a plan doesn't work the way expected. Changes, that no one can predict, occur. Costs can sometimes double on an item, while another doesn't cost what was originally projected. It's time to amend the budget! Since the budget was adopted as an appropriations ordinance, the ordinance needs changing. To make changes to the appropriations ordinance a budget amendment ordinance is required.

Overhead 88

Budget Amendment Ordinance

Ordinance No. ____

AN ORDINANCE FOR THE CITY OF _____ PROVIDING FOR THE
AMENDMENT OF THE BUDGET FOR FISCAL YEAR 2003

BE IT ENACTED BY THE COUNCIL OF THE CITY OF _____

Section 1. For the fiscal year of 2003, estimated revenues and/or expenditures have varied from the estimates in the approved budget.

Section 2. For the current fiscal year the budget is amended to reflect the changed estimates as follows:

Budget Category	Amounts		Amended Budget
	Original Budget		
_____	from \$ _____	to \$ _____	
_____	from \$ _____	to \$ _____	
_____	from \$ _____	to \$ _____	

Section 3. The budget is hereby amended as indicated and any portion of the approved budget inconsistent with this amendment is repealed.

Section 4. This ordinance becomes effective upon its adoption by the city council.

First Reading _____

Public Hearing _____

ADOPTED by a duly constituted quorum of the City Council of _____
Alaska, this ____ day of _____ 200_

Mayor

ATTEST:

City Clerk

*or the manager if the manager plan has been adopted Original kept by city copy DCED

There are two types of budget amendments: a supplemental appropriation, and a transfer appropriation. A supplemental appropriation is used if the city receives unexpected revenues it wishes to place in the operating budget, or to revise expenditure categories. For example, when spring breakup reveals severe pothole damage, a supplemental appropriation may be necessary to finance the needed repairs.

A transfer appropriation is used to transfer money from one line item to another. An example of a transfer may be that the city is notified that insurance rates are increasing, and water testing has revealed that fewer chemicals are required. The necessary funds can then be transferred from the chemical account to the insurance account.

The procedure for adopting the non-code budget amendment is the same as the procedure for adopting any ordinance.

You're finished with the Budget, Are You Done?
Overhead 89

No.



Now it's time to make sure the budget is followed. You should:

1. Develop a chart of accounts from your budget categories.
2. Track all revenues and expenditures through either a manual or computerized accounting system.
3. Prepare monthly financial statements for the council and management.
4. Prepare a year-end financial statement for the council to certify.

Building Utility Reserves

Overhead 90

Ideally the budget should include a **line item** to estimate building a cash reserve account for major repairs and replacements. Needed repairs can disable a system for days, weeks or even months while required monies are being sought. It is much better to have the funds available for these repairs when they are needed (unfortunately we never know exactly when) so that they can be purchased immediately and the problem addressed without any delays.

The only way these funds can accumulate is for the City to plan on their accumulation, and that is to create and budget a reserve account. It is also important to establish a user rate (discussed in chapter 4) adequate to cover the cost of major repairs. To do this, create a line item in the water/sewer budget and label it “utility reserves” and do the same with “capital reserves.”

Communications to the Public

Overhead 91

Communicating the budget process to the community is very important. It isn't especially easy since most times community members are not interested in the budget or the budgeting process unless cuts are advertised in popular programs. It is however, important that you strive to inform the public about the process, and involve them in the process if possible. Public notices and advertisements are critical. A public forum, where input is encouraged, is another possible way to get the community involved.



Budget Do's and Don'ts

Overhead 92

Do

- 🕒 Include all revenues and all expenses in the budget.
- 🕒 Adopt a balanced budget; revenues plus carryover funds must be equal to or greater than expenditures.
- 🕒 Be aware that some revenues have restrictions on how they are spent.

Overhead 93

BEWARE the BUDGET BOMBS



- Expect significant cuts in State Revenue Sharing and Power Cost Equalization (PCE) this year!
- Be prepared to reduce expenditures and think of ways to increase revenues!
- GET ON IT NOW!!

THE WHOLE VILLAGE NEEDS TO BE INVOLVED!!

All Municipalities will be looking at serious state budget cuts!!

The community needs to determine the Level of Service it will demand and structure budget scenarios accordingly.

Administrators, mayors, staff, council, and residents should look at different budget options depending upon the final level of cuts!!

NOW,NOW,NOW, the ice is very thin!!

Don't:

- Use payroll tax deductions to pay expenses
- Loan money to community organizations or individuals
- Let bills or taxes owed to or by the city go unpaid.

Tips:

Start early—right now!
Build the budget by village agreement
Establish responsibilities. Who does what!!! Now!!
Utilize timely and accurate financial data.

Don't

- 🕒 Borrow money to support general expenses.
- 🕒 Over estimate revenues and under estimate expenses.
- 🕒 Agree to continue a service or support a program when there is no revenue to support it and it cannot be made self-supporting.
- 🕒 Spend all revenues received in a year without setting aside funds for emergencies.
- 🕒 Include tribal revenues with city revenues in the city's budget.

Notes

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Budget Review Worksheet

- 1) What is a fiscal year?

- 2) What is an appropriation?

- 3) Are all appropriations included in a budget?

- 4) What is normally the largest expenditure of funds for an organization?

- 5) When estimating revenues and expenses for the next budget year, what document will provide the best information?

- 6) If changes are made to the budget after the governing body passes it, what is the process called to formally change the budget?

- 7) What is the best way to estimate equipment purchases?

- 8) Where do I find information on critical spare parts for my system?

- 9) What is a balanced budget?

- 10) What date does DCED recommend work start on budget preparation?

- 11) What is the purpose of a public hearing on the budget?

Budget Review Worksheet (continued)

12) Is the budget a public record?

13) What are unrestricted general funds?

14) A budget ordinance is the official budget of a city and is adopted as a _____ ordinance.

15) The first step in computing revenues is using the amount of _____ money left from the prior year.

Budget Review Worksheet

- 1) What is a fiscal year?
A 12-month period for which an organization plans the use of its funds.
- 2) What is an appropriation?
Money designated for a specific purpose.
- 3) Are all appropriations included in a budget?
Yes
- 4) What is normally the largest expenditure of funds for an organization?
Employee wages
- 5) When estimating revenues for the next budget year, what document will provide the best information?
The financial statement
- 6) If changes are made to the budget after the governing body passes it, what is the process called to formally change the budget?
Budget amendment
- 7) What is the best way to estimate equipment purchases?
Call vendors and ask them to give you an estimate of the costs FOB the community.
- 8) Where do I find information on critical spare parts for my system?
The operator and the RMW.
- 9) What is a balanced budget?
A balanced budget is one that has revenues equal to or greater than expenditures.
- 10) What date does DCED recommend work start on budget preparation?
April 1
- 11) What is the purpose of a public hearing on the budget?
To allow the public to provide input on the budget appropriations to the council.

12) Is the budget a public record?

Yes

13) What are unrestricted general funds?

Funds that have no specific requirements for their use.

14) A budget ordinance is the official budget of a city adopted by the council as a *non-code* ordinance.

15) The first step in computing revenues is using the amount of *carry-over* money left from the prior year.

Chapter 2 **BUDGETS**

Exercise 1 **ESTIMATING REVENUE WORKSHEET**

Purpose

To work through the mechanics of creating an **estimated revenue** worksheet.

Format

Small groups of 2-3 participants (4 maximum) to a table. We used 2 and it was just right.

Resources needed

Calculators, pencils with erasers, handout (1 page), sheet of scratch paper, fact sheet posted on flip chart, overhead or hand out

Time Requirement 0:15

Background

This is the first exercise in a series of seven exercises. The entire series is integral to the presentation of materials, and key to learning how to budget. **Instructors please note after each exercise is complete, hand out a correct answer sheet for use in subsequent exercises or review the correct answers with them to make sure they are using the correct numbers.**

The revenue worksheets are found in the City Budget Manual provided by DCBD state budget preparation materials. Group preparation will assist participants with preparation of their community's budget.

Activity

Facts will be presented on the overhead, flip chart, or handout. Participants are provided budget worksheets for estimating revenue. After the groups have completed the exercise, review and discuss the answers.

We provided the information on the handout and instructed students they were receiving a fact sheet and a revenue worksheet. We wanted them to take the information on the fact sheet and develop a worksheet.

After this was complete we randomly asked individuals to tell us what they got. We then put an overhead with the answers up and reviewed the information to make sure everyone understood where the information came from.

Estimating revenues

Fact sheet

○ Sales

- Sewer and water – 120 customers @ \$110. per month
- Cable TV – 86 customers @ \$45 per month
- Fuel sales – 2% increase from last year
 - Gasoline – last year 8350 gallons @ \$1.85
 - #2 heating oil – last year 17,250 gallons @ \$2.10
 - Propane – last year 8,560 lbs @ \$.88 per pound
- Washeteria - \$9,260 last year, 10% decrease this year
- Pop, candy and chips - \$9,125 last year, same this year

○ Rentals

- Tribal – \$150 per month
- Post office - \$300 per month
- Clinic - \$825 per month
- Equipment – 15 hours @ \$65 per hour, each month

○ State

- Revenue sharing - \$25,000
- Safe communities (municipal assistance) - \$13,500

○ Federal

- PILT – \$16,500

○ Grants

- Preschool - \$42,000
- Suicide Prevention - \$30,000
- FY 2002 Capital Matching Grant - \$27,000

○ Contracts

- AVEC reimbursement \$38,000

○ Other

- Bingo and pull tabs - \$17,000
- Copies - \$500
- Interest on CD's (\$30,000) at 4.5%

Budget Worksheet
Estimating Revenue FY 03

Revenue Category	Show your computation	Amount
Total Revenue		\$ -

Answer Sheet

Budget Worksheet Estimating Revenue FY <u>03</u>		
Revenue Category	Show your computation	Amount
Sewer & Water	$120 * \$110 * 12$	\$ 158,400.00
Cable	$86 * \$45 * 12$	\$ 46,440.00
Fuel	Gasoline: $8,350 * 1.85 * 1.02 = 15,756.45$	\$ 15,756.45
	#2 Oil: $17,250 * 2.10 * 1.02 = 36,949.50$	\$ 36,949.50
	Propane: $8,560 * .88 * 1.02 = 7,683.46$	\$ 7,683.46
Washeteria	$\$9,260 * 90\%$	\$ 8,334.00
Pop, Candy, Chips	Same as last year	\$ 9,125.00
Rentals	Tribal: $\$150 * 12 = \$1,800$	\$ 1,800.00
	Post Office: $\$300 * 12 = \$3,600$	\$ 3,600.00
	Clinic: $\$825 * 12 = \$9,900$	\$ 9,900.00
	Equipment: $\$15 * 65 * 12 = \$11,700$	\$ 11,700.00
State	$(\$25,000 + \$13,500)$	\$ 38,500.00
Federal	$(\$16,500)$	\$ 16,500.00
Grants	$(\$42,000 + \$30,000 + \$27,000)$	\$ 99,000.00
AVEC Contracts	AVEC @ \$38,000	\$ 38,000.00
Bingo & Pull-tabs	\$17,000 per year	\$ 17,000.00
Copies	\$500 per year	\$ 500.00
Interest on 3 CD's	$\$30,000 * 4.5\%$	\$ 1,350.00
Total Revenue		\$ 520,538.41

Chapter 2

BUDGETS

Exercise 2

COMPLETING REVENUE BUDGET FORMS

Purpose

To transfer worksheet data to budget forms as provided in the City Budget Manual. Stress to the class that on the worksheets we are using actual dollars and cents, however, **once you get to the point where transfers are made to the budget sheets, round the numbers to the nearest dollar.**

Format

Continue with the same groups from exercise #1 unless change is necessary or recommended.

Resources needed

Calculators, pencils with erasers, handouts (4 pages)

Time Requirement

0:10

Background

This exercise is a continuation of exercise #1 and must be completed with the revenue worksheet prepared in exercise #1. This exercise demonstrates how to transfer information from the budget worksheets to the budget forms using appropriate categories.

Activity

Participants receive budget forms to transfer worksheet information to. Have groups discuss and agree where each item is best reported. After the time is up, have the class review and discuss the revenue budget forms.

BUDGETED OPERATING REVENUES		LOCALLY GENERATED	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
			<div style="border: 1px solid black; padding: 2px;">Budget Summary Line Reference</div>
Taxes:	Sales Taxes	\$	\$
	Sales Tax Penalties & Interest	\$	\$
	Property Taxes	\$	\$
	Property Tax Penalties & Interest	\$	\$
	Hotel/Motel Taxes	\$	\$
	Hotel Tax Penalties & Interest	\$	\$
	Motor Vehicle Taxes	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Taxes		\$ -	\$ - Enter on line 1
Special Assessments:		\$ -	\$ - Enter on line 2
Licenses and Permits:		\$ -	\$ - Enter on line 3
Fines and Penalties:		\$ -	\$ - Enter on line 4
Contracted Services:	AVEC Reimbursement	\$	\$
	IHS Health Clinic Lease	\$	\$
	Airport Maintenance Contract w/State	\$	\$
	Road Maintenance Contract w/State	\$	\$
	Jail Contract w/State	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Contracted Services		\$ -	\$ - Enter on line 5
Service Charges:	Photocopies	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Service Charges		\$ -	\$ - Enter on line 6
Enterprises:	Electric Utility: Customer Payments	\$	\$
	Electric Utility: PCE Subsidy	\$	\$
	Water / Sewer	\$	\$
	Washeteria / Sauna	\$	\$
	Garbage Collection Services	\$	\$
	Landfill / Dump Fees	\$	\$
	Fuel Sales	\$	\$
	Harbor / Dock Charges	\$	\$
	Cable TV	\$	\$
	Bingo / Pull Tab Receipts	\$	\$
	Mass Transit	\$	\$
	Phone Utility	\$	\$
	Other: Freezer House Fees	\$	\$
	Other: _____	\$	\$
Total Enterprise Revenues		\$ -	\$ - Enter on line 7
Rentals:	Building Rentals	\$	\$
	Equipment Rentals	\$	\$
	Other: _____	\$	\$
Total Rentals		\$ -	\$ - Enter on line 8

BUDGETED OPERATING REVENUES		LOCALLY GENERATED	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Leases:	Land Leases	\$	\$
	Equipment Leases	\$	\$
	Other: _____	\$	\$
	Total Leases	\$ -	\$ -
			Enter on line 9
Sales:	Land Sales	\$	\$
	Gravel Sales	\$	\$
	Pop Sales/Concessions	\$	\$
	Other: _____	\$	\$
	Total Sales	\$ -	\$ -
			Enter on line 10
Other Revenues:	Interest Earnings	\$	\$
	Other: _____	\$	\$
	Other: Savings	\$	\$
	Other: _____	\$	\$
	Total Other	\$ -	\$ -
			Enter on line 11
TOTAL LOCALLY GENERATED REVENUES		\$	\$
			Enter on line 12

BUDGETED OPERATING REVENUES			OUTSIDE SOURCES	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET	Budget Summary Line Reference
Shared Revenues From The State of Alaska:	State Revenue Sharing	\$		
	Municipal Assistance	\$		
	Raw Fish Tax Refunds	\$		
	Aviation Fuel Tax Refunds	\$		
	Telephone / Electric Co-op Tax Refunds	\$		
	Amusement / Gaming Tax Refunds	\$		
	Liquor License Tax Refunds	\$		
	Other:	\$		
	Other:	\$		
Total State Shared Revenues		\$		Enter on line 13
State of Alaska Operating Grants:	Library Grant	\$		
	Suicide Prevention Grant	\$		
	JTPA Grant	\$		
	Other: Preschool	\$		
	Other:	\$		
	Other:	\$		
Total State Operating Grants		\$		Enter on line 14
Revenues/Grants From The Federal Gov't:	Payment in Lieu of Taxes	\$		
	National Forest Receipts	\$		
	Operating Grant:	\$		
	Other:	\$		
	Other:	\$		
	Other:	\$		
Total Federal Revenues		\$		Enter on line 15
Other Outside Revenues:	Borough:	\$		
	Other:	\$		
	Other:	\$		
3		\$		Enter on line 16
TOTAL OUTSIDE OPERATING REVENUES		\$		Enter on line 17
TOTAL FY 02 OPERATING REVENUES		\$		Enter on line 18

REVENUES FOR CAPITAL / SPECIAL PROJECTS		OUTSIDE SOURCES	
		FY 01 ACTUAL (Estimated)	FY 02 BUDGET
		Budget Summary Line Reference	
Grants From the State of Alaska: (list projects)	RDA: _____	\$ _____	\$ _____
	CDBG: _____	\$ _____	\$ _____
	Other: Municipal Matching Grant _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
Total State Project Funds		-	-
		Enter on line 19	
Grants From the Federal Gov't: (list projects)	EDA: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
	Other: _____	\$ _____	\$ _____
Total Federal Project Funds		-	-
		Enter on line 20	
TOTAL REVENUES FOR CAPITAL/SPECIAL PROJECTS		-	-
		Enter on line 21	

Answer Sheet

BUDGETED OPERATING REVENUES		LOCALLY GENERATED		
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET	Budget Summary Line Reference
Taxes:	Sales Taxes	\$	\$	
	Sales Tax Penalties & Interest	\$	\$	
	Property Taxes	\$	\$	
	Property Tax Penalties & Interest	\$	\$	
	Hotel/Motel Taxes	\$	\$	
	Hotel Tax Penalties & Interest	\$	\$	
	Motor Vehicle Taxes	\$	\$	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
	Total Taxes	\$	\$	Enter on line 1
Special Assessments:		\$	\$	Enter on line 2
Licenses and Permits:		\$	\$	Enter on line 3
Fines and Penalties:		\$	\$	Enter on line 4
Contracted Services:	AVEC Reimbursement	\$	38,000.00	
	IHS Health Clinic Lease	\$	\$	
	Airport Maintenance Contract w/State	\$	\$	
	Road Maintenance Contract w/State	\$	\$	
	Jail Contract w/State	\$	\$	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
	Total Contracted Services	\$	38,000.00	Enter on line 5
Service Charges:	Photocopies	\$	500.00	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
	Total Service Charges	\$	500.00	Enter on line 6
Enterprises:	Electric Utility: Customer Payments	\$	\$	
	Electric Utility: PCE Subsidy	\$	\$	
	Water / Sewer	\$	158,400.00	
	Washeteria / Sauna	\$	8,334.00	
	Garbage Collection Services	\$	\$	
	Landfill / Dump Fees	\$	\$	
	Fuel Sales	\$	60,389.41	
	Harbor / Dock Charges	\$	\$	
	Cable TV	\$	46,440.00	
	Bingo / Pull Tab Receipts	\$	17,000.00	
	Mass Transit	\$	\$	
	Phone Utility	\$	\$	
	Other: Pop, candy, chips	\$	\$	
	Other: Copies	\$	\$	
	Total Enterprise Revenues	\$	290,563.41	Enter on line 7
Rentals:	Building Rentals	\$	15,300.00	
	Equipment Rentals	\$	11,700.00	
	Other: _____	\$	\$	
	Total Rentals	\$	27,000.00	Enter on line 8

Answer Sheet

BUDGETED OPERATING REVENUES			LOCALLY GENERATED	
			FY 02 ACTUAL (Estimated)	FY 03 BUDGET
			Budget Summary Line Reference	
Leases:	Land Leases		\$	
	Equipment Leases		\$	
	Other: _____		\$	
	Total Leases		\$	
				Enter on line 9
Sales:	Land Sales		\$	
	Gravel Sales		\$	
	Pop Sales/Concessions		\$	9,125.00
	Other: _____		\$	
	Total Sales		\$	9,125.00
				Enter on line 10
Other Revenues:	Interest Earnings		\$	1,350.00
	Other: _____		\$	
	Other: _____		\$	
	Other: _____		\$	
	Total Other		\$	1,350.00
				Enter on line 11
TOTAL LOCALLY GENERATED REVENUES			\$	366,538.41
				Enter on line 12

Answer Sheet

BUDGETED OPERATING REVENUES			OUTSIDE SOURCES	
			FY 02 ACTUAL (Estimated)	FY 03 BUDGET
			Budget Summary Line Reference	
Shared Revenues From The State of Alaska:	State Revenue Sharing	\$	\$	25,000
	Safe Communities	\$	\$	13,500
	Raw Fish Tax Refunds	\$	\$	
	Aviation Fuel Tax Refunds	\$	\$	
	Telephone / Electric Co-op Tax Refunds	\$	\$	
	Amusement / Gaming Tax Refunds	\$	\$	
	Liquor License Tax Refunds	\$	\$	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
Total State Shared Revenues		\$	\$	38,500.00 Enter on line 13
State of Alaska Operating Grants:	Library Grant	\$	\$	
	Suicide Prevention Grant	\$	\$	30,000.00
	JTPA Grant	\$	\$	
	Other: Preschool	\$	\$	42,000.00
	Other: Matching	\$	\$	27,000.00
	Other: _____	\$	\$	
Total State Operating Grants		\$	\$	99,000.00 Enter on line 14
Revenues/Grants From The Federal Gov't:	Payment in Lieu of Taxes	\$	\$	16,500.00
	National Forest Receipts	\$	\$	
	Operating Grant: _____	\$	\$	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
Total Federal Revenues		\$	\$	16,500.00 Enter on line 15
Other Outside Revenues:	Borough: _____	\$	\$	
	Other: _____	\$	\$	
	Other: _____	\$	\$	
Total Other Outside Revenues		\$	\$	- Enter on line 16
TOTAL OUTSIDE OPERATING REVENUES		\$	\$	154,000.00 Enter on line 17
TOTAL FY 02 OPERATING REVENUES		\$	\$	520,538.41 Enter on line 18

Answer Sheet

REVENUES FOR CAPITAL / SPECIAL PROJECTS			OUTSIDE SOURCES	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET	Budget Summary Line Reference
Grants From the State of Alaska: (list projects)	RDA: _____	\$ _____	\$ _____	
	CDBG: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Total State Project Funds	\$ _____	\$ 0	
Grants From the Federal Gov't: (list projects)	EDA: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Other: _____	\$ _____	\$ _____	
	Total Federal Project Funds	\$ _____	\$ 0	
TOTAL REVENUES FOR CAPITAL/SPECIAL PROJECTS		\$ _____	\$ 0	Enter on line 21

Chapter 2

BUDGETS

Exercise 3

COMPLETING BUDGET WORKSHEETS FOR PAYROLL

Purpose

How to complete the payroll worksheets in the City Budget Manual. There are three worksheets provided, representing three departments. Payroll must be allocated between the three departments. This demonstrates the correct way to budget personnel who fulfill multiple functions.

Format

Small groups of 2-3 participants continue prior group if possible.

Resources needed

Calculators, pencils, handouts (3 sheets), flip chart, overhead or handout

Time Requirement 0:15-0:20 minutes

Background

This is the third in a series of exercises that build on each other. They must be done in sequence and parallel the presentation of the chapter.

Activity

Participants will receive budget forms to complete. Advise participants actual forms in the City Budget Manual do not contain tax, PERS, and workers compensation insurance rates in them. Social security and Medicare rates are constant, 6.2% and 1.45% respectively. State unemployment, PERS, and worker's comp. Numbers used in the exercise are for purposes of this exercise.

Give participants ample time to complete worksheets. After the time is up, the class will review and discuss the three worksheets.

Budget payroll

Fact sheet

The City is not enrolled in PERS

The city has 6 employees:

- 1) City administrator – works 37.5 hours each week, \$12.00 per hour
 - a. 90% for general city tasks,
 - b. 10% for sewer & water on collections
- 2) City clerk – works 37.5 hours each week, \$10.00 per hour
 - a. 60% for general city tasks
 - b. 40% utility billings, and receivables
- 3) Operator I – works 20 hours per week, \$12.00 per hour (sewer & water)
- 4) Operator II – works 20 hours per week, \$12.00 per hour (sewer & water)
- 5) Janitor
 - a. Cleans city hall Tuesday & Thursday nights
 - b. Cleans water plant Monday, Wednesday,
 - c. Cleans washeteria on Friday nights
 - d. Works 4 hours each night, \$7.50 per hour
- 6) Washeteria attendant
 - a. Works 30 hours each week, \$10.00 per hour

Budget Worksheet for Cities Participating in Social Security Payroll and Payroll Costs

Name of Department and/or Grant _____ Admin/Finance

Job Title	Hourly pay rate	X	Hours per week	X	No. of weeks	=	Total
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	

Total Gross Wages (1) _____

Compute Payroll Taxes

Employer's S.S. rate 6.2% X _____ = (2) _____
Total Gross Wages

Employer's Medicare rate 1.45% X _____ = (3) _____
Total Gross Wages

Employer's ESC rate 3.25% X _____ = (4) _____
Total Gross Wages

Worker's Compensation 2.75% X _____ = (5) _____
Total Gross Wages

PERS (Employer's rate) 3.0% X _____ = (6) _____
(if applicable) Total Gross Wages

ADD (1) through (6) for **Total Payroll Costs:** _____

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

Budget Worksheet for Cities Participating in Social Security Payroll and Payroll Costs

Name of Department and/or Grant Washeteria

Job Title	Hourly pay rate	X	Hours per week	X	No. of weeks	=	Total
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	

Total Gross Wages (1) _____

Compute Payroll Taxes

Employer's S.S. rate 6.2 % X _____ = (2)
Total Gross Wages

Employer's Medicare rate 1.45% X _____ = (3)
Total Gross Wages

Employer's ESC rate 3.25% X _____ = (4)
Total Gross Wages

Worker's Compensation 2.75% X _____ = (5)
Total Gross Wages

PERS (Employer's rate) 3.0 % X _____ = (6)
(if applicable) Total Gross Wages

ADD (1) through (6) for **Total Payroll Costs:** _____

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

Budget Worksheet for Cities Participating in Social Security Payroll and Payroll Costs

Name of Department and/or Grant Sewer and Water Utility

Job Title	Hourly pay rate	X	Hours per week	X	No. of weeks	=	Total
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	
		X		X		=	

Total Gross Wages (1) _____

Compute Payroll Taxes

Employer's S.S. rate 6.2 % X _____ = (2)
Total Gross Wages

Employer's Medicare rate 1.45% X _____ = (3)
Total Gross Wages

Employer's ESC rate 3.25% X _____ = (4)
Total Gross Wages

Worker's Compensation 2.75% X _____ = (5)
Total Gross Wages

PERS (Employer's rate) 3.0 % X _____ = (6)
(if applicable) Total Gross Wages

ADD (1) through (6) for **Total Payroll Costs:** _____

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

Answer Sheet

Budget Worksheet for Cities Participating in Social Security

Payroll and Payroll Costs

Name of Department and/or Grant _____ Admin/Finance _____

Job Title	Hourly pay rate	X	Hours per week	X	No. of weeks	=	Total
Admin	\$ 12.00	X	33.75	X	52	=	\$ 21,060.00
Clerk	\$ 10.00	X	22.5	X	52	=	\$ 11,700.00
Janitor	\$ 7.50	X	8	X	52	=	\$ 3,120.00
		X		X		=	
		X		X		=	
		X		X		=	

Total Gross Wages (1) \$ 35,880.00

Compute Payroll Taxes

Employer's S.S. rate 6.2 % X 35,880 = (2) \$ 2,224.56
Total Gross Wages

Employer's Medicare rate 1.45% X 35,880 = (3) \$ 520.26
Total Gross Wages

Employer's ESC rate 3.25% X 35,880 = (4) \$ 1,166.10
Total Gross Wages

Worker's Compensation 2.75% X 35,880 = (5) \$ 986.70
Total Gross Wages

PERS (Employer's rate) 3.0 % X N/A = (6) \$ 0.00
(if applicable) Total Gross Wages

ADD (1) through (6) for **Total Payroll Costs:** \$ 40,777.62

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

Answer Sheet

Budget Worksheet for Cities Participating in Social Security

Payroll and Payroll Costs

Name of Department and/or Grant _____ Sewer & Water Utility

Job Title	Hourly pay rate	x	Hours per week	x	No. of weeks	=	Total
Admin.	\$ 12.00	x	3.75	x	52	=	\$ 2,340.00
Clerk	\$ 10.00	x	15	x	52	=	\$ 7,800.00
Janitor	\$ 7.50	x	8	x	52	=	\$ 3,120.00
Operat I	\$ 12.00	x	20	x	52	=	\$ 12,480.00
Operat II	\$ 12.00	x	20	x	52	=	\$ 12,480.00
		x		x		=	

Total Gross Wages (1) \$ 38,220.00

Compute Payroll Taxes

Employer's S.S. rate 6.2 % x 38,220.00 = (2) \$ 2,369.64
Total Gross Wages

Employer's Medicare rate 1.45 % x 38,220.00 = (3) \$ 554.19
Total Gross Wages

Employer's ESC rate 3.25 % x 38,220.00 = (4) \$ 1,242.15
Total Gross Wages

Worker's Compensation 2.75 % x 38,220.00 = (5) \$ 1,051.05
Total Gross Wages

PERS (Employer's rate) 3.0 % x N/A = (6) \$ 0.00
(if applicable) Total Gross Wages

ADD (1) through (6) for **Total Payroll Costs:** **\$ 43,437.03**

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

Answer Sheet

**Budget Worksheet for Cities Participating in Social Security
Payroll and Payroll Costs**

Name of Department and/or Grant Washeteria

Job Title	Hourly pay rate	x	Hours per week	x	No. of weeks	=	Total
Attendant	\$ 10.00	x	30	x	52	=	\$ 15,600.00
Janitor	\$ 7.50	x	4	x	52	=	\$ 1,560.00
		x		x		=	\$ -
		x		x		=	\$ -
		x		x		=	\$ -
		x		x		=	

Total Gross Wages (1) \$ 17,160.00

Compute Payroll Taxes

Employer's S.S. rate 6.2 % x 17,160.00 = (2) \$ 1,063.92
Total Gross Wages

Employer's Medicare rate 1.45 % x 17,160.00 = (3) \$ 248.82
Total Gross Wages

Employer's ESC rate 3.25 % x 17,160.00 = (4) \$ 557.70
Total Gross Wages

Worker's Compensation 2.75 % x 17,160.00 = (5) \$ 471.90
Total Gross Wages

PERS (Employer's rate) 3.0 % x N/A = (6) \$ 0.00
(if applicable) Total Gross Wages

ADD (1) through (6) for **Total Payroll Costs:** \$ 19,502.34

NOTE: For employees on a salary and receiving the same gross pay each pay period, use the following computation formula: Gross pay x No. of pay periods = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

Chapter 2

BUDGETS

Exercise 4

COMPLETING OTHER EXPENDITURE WORKSHEETS

Purpose

How to compute other expenditures using the provided worksheets. Information comes from handouts using information (**payroll** and **other expenditures**) from exercises #3 and #4

Format

Small groups continued from prior exercises

Resources needed

Calculators, pencils, handouts (3 pages), and fact sheet on flip chart, overhead, or handout

Time Requirement

0:15

Background

This is the fourth in series. It must be presented in sequence. The presentation and completion is in the same format as exercises #1 through #3.

Activity

Participants will receive other expenditure worksheets to complete. Facts will be presented on flip chart, overhead, or handouts. After the time is up, the class reviews and discusses the completed other expenditure worksheets.

Other expenditures - these items needs no computation, they are for the year. The exercise here is to “spread” the cost to the three departments.

Fact sheet

<ul style="list-style-type: none">● Heating fuel<ul style="list-style-type: none">• City hall \$2,163• Water plant \$2,472• Washeteria \$1,545● Electricity cost<ul style="list-style-type: none">• City hall \$1,652• Water plant \$1,888• Washeteria \$1,180● Telephone<ul style="list-style-type: none">• City hall \$2,670• Water plant \$534• Washeteria \$356● Sewer & Water<ul style="list-style-type: none">• City hall \$1,380• Water plant \$2,500• Washeteria \$2,700● Airfare<ul style="list-style-type: none">• Administrator \$1,950• Clerk \$1,300• Operator I \$1,625• Operator II \$1,625● Per Diem<ul style="list-style-type: none">• Administrator \$1,500• Clerk \$1,000• Operator I \$2,500• Operator II \$2,500	<ul style="list-style-type: none">● Training<ul style="list-style-type: none">• Administrator \$1,600• Operators \$2,000• Clerk \$800● Sewer & Water<ul style="list-style-type: none">• Critical spare parts \$2,000• Chemicals \$160• Water testing \$900• Office supplies \$500• Repairs & Maint. \$6,000• Equipment \$2,000• Postage \$840• Capital Reserves \$10,000● Washeteria<ul style="list-style-type: none">• Supplies \$1,200• Repairs \$600• Equipment \$3,400● City<ul style="list-style-type: none">• Copies supplies \$1,800• Postage \$2,400• Membership \$480• Insurance \$600• Bank charges \$100
--	---

Budget Worksheet

Other Expenditures FY _____

Name of Department and/or Grant **Admin/Finance**

Expenditure Category	Show your computation	Budget Amount

Total Expenditures \$

Budget Worksheet		
Other Expenditures FY _____		
Name of Department and/or Grant <u>Washeteria</u>		
Expenditure Category	Show your computation	Budget Amount
Total Expenditures		\$ <u> </u>

Budget Worksheet		
Other Expenditures FY _____		
Name of Department and/or Grant <u> Sewer & Water </u>		
Expenditure Category	Show your computation	Budget Amount
Total Expenditures		\$ _____

Answer Sheet

Budget Worksheet

Other Expenditures FY 2003
General Fund

Name of Department and/or Grant **Administration & Finance**

Expenditure Category	Show your computation	Budget Amount
Heating Oil		\$ 2,163.00
Electricity		\$ 1,652.00
Telephone		\$ 2,670.00
Sewer & Water		\$ 1,380.00
Airfare	Admin \$1,950 + Clerk \$1,300	\$ 3,250.00
Per Diem	Admin \$1,500 + Clerk \$1,000	\$ 2,500.00
Training	Admin \$1,600 + Clerk \$800	\$ 2,400.00
Copies		\$ 1,800.00
Postage		\$ 2,400.00
Membership		\$ 480.00
Insurance		\$ 600.00
Bank Charges		\$ 100.00

Total Expenditures \$ 21,395.00

Answer Sheet

Budget Worksheet

Other Expenditures FY 2003
General Fund

Name of Department and/or Grant Sewer & Water

Expenditure Category	Show your computation	Budget Amount
Heating Oil		\$ 2,472.00
Electricity		\$ 1,888.00
Telephone		\$ 534.00
Sewer & Water		\$ 2,500.00
Airfare	Op I \$1,625 + Op II \$1,625	\$ 3,250.00
Per Diem	Op I \$2,500 + Op II \$2,500	\$ 5,000.00
Training	Op I \$1,000 + Op II \$1,000	\$ 2,000.00
Critical Spare Parts		\$ 2,000.00
Chemicals		\$ 160.00
Water Testing		\$ 900.00
Office Supplies		\$ 500.00
Repairs & Maintenance		\$ 6,000.00
Equipment		\$ 2,000.00
Postage		\$ 840.00
Capital Reserves		\$ 10,000.00
Total Expenditures		\$ 40,044.00

Answer Sheet

Budget Worksheet

Other Expenditures FY 2003

Washeteria

Name of Department and/or Grant

Expenditure Category	Show your computation	Budget Amount
Heating Oil		\$ 1,545.00
Electricity		\$ 1,180.00
Telephone		\$ 356.00
Sewer & Water		\$ 2,700.00
Supplies		\$ 1,200.00
Repairs		\$ 600.00
Equipment		\$ 3,400.00

Total Expenditures \$ 10,981.00

Chapter 2

BUDGETS

Exercise 5

**TRANSFERRING INFORMATION FROM WORKSHEETS TO
EXPENDITURE BUDGET FORMS**

Purpose

How to prepare budget forms used in the City Budget Manual for transmittal to DCBD. The information comes from worksheets (payroll and other expenditures) for the departments “water & Sewer”, “Admin/ Finance” and “Washeteria” prepared in exercises #3 and #4

Format

Small groups continued from prior exercises

Resources needed

Calculators, pencils, handouts (3 pages)

Time Requirement

0:15

Background

This is not a ‘stand alone’ exercise. It must be presented as a portion of a series of seven exercises in this chapter. Exercises parallel chapter presentations.

Activity

Participants are given budget forms to complete. After the time is up, the class reviews and discusses the expenditure budget forms.

BUDGETED OPERATING EXPENDITURES		ADMINISTRATION & FINANCE	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$	\$
	Stipends	\$	\$
	Payroll Taxes	\$	\$
	Workers Compensation	\$	\$
	Retirement / Pension	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Personal Services		\$	\$
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Travel		\$	\$
Facility Expenses:	Telephone	\$	\$
	Rent	\$	\$
	Electricity	\$	\$
	Water & Sewer	\$	\$
	Fuel Oil	\$	\$
	Repairs / Maintenance (buildings)	\$	\$
	Other: _____	\$	\$
Other: _____	\$	\$	
Total Facility Expenses		\$	\$
Supplies:	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Supplies		\$	\$
Equipment:	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Equipment		\$	\$
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$	\$
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Contractual: Legal Services	\$	\$
	Contractual: Accounting / Audit Services	\$	\$
	Other Contractual: _____	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Other		\$	\$
TOTAL ADMINISTRATION & FINANCE BUDGET		\$	\$

Enter on line 23 of Budget Summary

BUDGETED OPERATING EXPENDITURES		WASHETERIA	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$	\$
	Stipends	\$	\$
	Payroll Taxes	\$	\$
	Workers Compensation	\$	\$
	Retirement / Pension	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Personal Services	\$	\$
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Travel	\$	\$
Facility Expenses:	Telephone	\$	\$
	Rent	\$	\$
	Electricity	\$	\$
	Water & Sewer	\$	\$
	Fuel Oil	\$	\$
	Repairs / Maintenance (buildings)	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Facility Expenses	\$	\$
Supplies:	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Supplies	\$	\$
Equipment:	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Equipment	\$	\$
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$	\$
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Contractual Services: _____	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Other	\$	\$
TOTAL WASHETERIA BUDGET		\$	\$

Enter on line 32 of Budget Summary

BUDGETED OPERATING EXPENDITURES		WATER & SEWER	
<input type="checkbox"/> Check if City Budget includes water service <input type="checkbox"/> Check if City Budget includes sewer or honeybucket service			
		FY 02 ACTUAL	FY 03 BUDGET
Personal Services:	Salaries	\$	\$
	Stipends	\$	\$
	Payroll Taxes	\$	\$
	Workers Compensation	\$	\$
	Retirement / Pension	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Personal Services	\$	\$
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Travel	\$	\$
Facility Expenses:	Telephone	\$	\$
	Rent	\$	\$
	Electricity	\$	\$
	Water & Sewer	\$	\$
	Fuel Oil	\$	\$
	Repairs / Maintenance (buildings)	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Facility Expenses	\$	\$
Supplies:	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Supplies	\$	\$
Equipment:	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Equipment	\$	\$
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$	\$
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Other Contractual: _____	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Other	\$	\$
TOTAL WATER & SEWER BUDGET		\$	\$
Enter on line 31 of Budget Summary			

Answer Sheet

BUDGETED OPERATING EXPENDITURES		ADMINISTRATION & FINANCE	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$	35,880.00
	Stipends	\$	
	Payroll Taxes	\$	3,910.92
	Workers Compensation	\$	986.70
	Retirement / Pension	\$	
	Other: General Liability	\$	
	Other: Sub	\$	
	Total Personal Services		\$
Travel:	Airfare	\$	3,250.00
	Per Diem	\$	2,500.00
	Training, Workshop & Conference Fees	\$	2,400.00
	Other:	\$	
	Other:	\$	
	Total Travel		\$
Facility Expenses:	Telephone	\$	2,670.00
	Rent	\$	
	Electricity	\$	1,652.00
	Water & Sewer	\$	1,380.00
	Fuel Oil	\$	2,163.00
	Repairs / Maintenance (buildings)	\$	
	Other:	\$	
	Other:	\$	
	Total Facility Expenses		\$
Supplies:	Office & Clerical Supplies	\$	
	Postage Supplies	\$	2,400.00
	Copier Supplies	\$	
	Other: Photocopies	\$	1,800.00
	Other:	\$	
	Total Supplies		\$
Equipment:	Equipment	\$	
	Vehicle / Equipment Maintenance	\$	
	Other:	\$	
	Other:	\$	
	Total Equipment		\$
Other Operating Expenses:	Interest & Late Charges	\$	
	Insurance & Bonding	\$	600.00
	Membership Dues & Fees / Subscriptions	\$	480.00
	Bank Charges	\$	100.00
	Contractual: Legal Services	\$	
	Contractual: Accounting/Audit Services	\$	
	Other Contractual: Services	\$	
	Other:	\$	
	Other:	\$	
	Total Other		\$
TOTAL ADMINISTRATION & FINANCE EXPENDITURES		\$	62,172.62

Enter on line 23 of Budget Summary

Answer Sheet

BUDGETED OPERATING EXPENDITURES		WATER & SEWER	
<input type="checkbox"/> Check if City Budget includes water service <input type="checkbox"/> Check if City Budget includes sewer or honeybucket service			
		FY 02 ACTUAL	FY 03 BUDGET
Personal Services:	Salaries	\$	38,220.00
	Stipends	\$	
	Payroll Taxes	\$	4,165.98
	Workers Compensation	\$	1,051.05
	Retirement / Pension	\$	
	Other: _____	\$	
	Other: _____	\$	
Total Personal Services		\$	43,437.03
Travel:	Airfare	\$	3,250.00
	Per Diem	\$	5,000.00
	Training, Workshop & Conference Fees	\$	2,000.00
	Other: _____	\$	
	Other: _____	\$	
Total Travel		\$	10,250.00
Facility Expenses:	Telephone	\$	534.00
	Rent	\$	
	Electricity	\$	1,888.00
	Water & Sewer	\$	2,500.00
	Fuel Oil	\$	2,472.00
	Repairs / Maintenance (buildings)	\$	6,000.00
	Other: _____	\$	
	Other: _____	\$	
Total Facility Expenses		\$	13,394.00
Supplies:	Office & Clerical Supplies	\$	500.00
	Postage Supplies	\$	840.00
	Copier Supplies	\$	
	Other: Chemicals	\$	160.00
	Other: Water Testing	\$	900.00
Total Supplies		\$	2,400.00
Equipment:	Equipment	\$	2,000.00
	Vehicle / Equipment Maintenance	\$	
	Other: Critical Spare Parts	\$	2,000.00
	Other: _____	\$	
Total Equipment		\$	4,000.00
Other Operating Expenses:	Interest & Late Charges	\$	
	Insurance & Bonding	\$	
	Membership Dues & Fees / Subscriptions	\$	
	Bank Charges	\$	
	Other Contractual:	\$	
	Other: Capital Reserves	\$	10,000.00
	Other: _____	\$	
Total Other		\$	10,000.00
TOTAL WATER & SEWER BUDGET		\$	83,481.03
Enter on line 31 of Budget Summary			

Answer Sheet

BUDGETED OPERATING EXPENDITURES		WASHETERIA	
		FY 02 ACTUAL (Estimated)	FY 03 BUDGET
Personal Services:	Salaries	\$	17,160.00
	Stipends	\$	\$
	Payroll Taxes	\$	1,870.44
	Workers Compensation	\$	471.90
	Retirement / Pension	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Personal Services		\$	19,502.34
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Travel	\$	-
Facility Expenses:	Telephone	\$	356.00
	Rent	\$	\$
	Electricity	\$	1,180.00
	Water & Sewer	\$	2,700.00
	Fuel Oil	\$	1,545.00
	Repairs / Maintenance (buildings)	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
Total Facility Expenses		\$	5,781.00
Supplies:	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	1,200.00
	Copier Supplies	\$	\$
	Other: Photocopies	\$	\$
	Other: _____	\$	\$
	Total Supplies	\$	1,200.00
Equipment:	Equipment	\$	3,400.00
	Vehicle / Equipment Maintenance	\$	\$
	Other: Repairs	\$	600.00
	Other: _____	\$	\$
	Total Equipment	\$	4,000.00
Other Operating Expenses:	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$	\$
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Other Contractual: _____	\$	\$
	Other: _____	\$	\$
	Other: _____	\$	\$
	Total Other	\$	-
TOTAL WASHETERIA BUDGET		\$	30,483.34
Enter on line 32 of Budget Summary			

Chapter 2

BUDGETS

Exercise 6

**COMPLETING CARRYOVER CASH BALANCE
WORKSHEET**

Purpose

A question that frequently is asked is “Where does the information come from for carryover cash”? How to prepare the carryover cash balance worksheet from the City Budget Manual demonstrates this information.

Format

Same small groups

Resources needed

Calculators, pencils, handout (1), and fact sheet on flip chart, overhead, or handout.

Time Requirement

Background

Exercise #6 in the series of seven exercises.

Activity

Participants receive carryover cash balance worksheets to complete. After the time is up, the class reviews and discusses the worksheet.

Carryover Cash Balance Worksheet

Fact sheet

- The organization has three certificates of deposit for \$10,000 each; they earn interest at 4.5% for the general city treasury, (the interest is already recorded on the revenue sheets).
- The checking accounts have the following balances
 - General \$29,345.86
 - Sewer and Water \$ 5,784.32
 - Grants \$ 8,924.10
 - Bingo \$ 2,315.60
 - Cash on hand \$ 843.90
- **Total anticipated revenues for remainder of year \$36,500.00**
- **Total anticipated expenditures for remainder of year \$43,750.00**

Carryover Cash Balance Worksheet

Investment

List Each Investment
and the Balance

Total >>>>>>>>		
Investment		\$ -
Balance		
(Include on Line 1 Below)		

Checking Account Balance

List the Account Number and Cash
Balance of Every Checking Account

Total >>>>>>>>		
Checking Account		\$ -
Balance		
(Include on Line 2 Below)		

Carryover Cash Balance Summary

1. Total Investment Balance		
2. Total Checking Account Balance	+	
3. Total Anticipated Revenues for remainder of fiscal year	+	
4. Total Anticipated Expenditures for remainder of fiscal year	-	
5. Total Carryover Cash Balance	= \$	-

Answer Sheet

Carryover Cash Balance Worksheet		
Investment		
List Each Investment and the Balance		
CD	12-34-567	\$ 10,000.00
CD	89-10-11	\$ 10,000.00
CD	12-1314-1	\$ 10,000.00
Total >>>>>>>>		
Investment		\$ 30,000.00
Balance		
(Include on Line 1 Below)		
Checking Account Balance		
List the Account Number and Cash Balance of Every Checking Account		
General		\$ 29,345.86
Sewer & Water		\$ 5,784.32
Grants		\$ 8,924.10
Bingo		\$ 2,315.60
Cash on hand		\$ 843.90
Total >>>>>>>>		
Checking Account		\$ 47,213.78
Balance		
(Include on Line 2 Below)		

Carryover Cash Balance Summary	
1. Total Investment Balance	\$ 30,000.00
2. Total Checking Account Balance	+ \$ 47,213.78
3. Total Anticipated Revenues for remainder of fiscal year	+ \$ 36,500.00
4. Total Anticipated Expenditures for remainder of fiscal year	- \$ 43,750.00
5. Total Carryover Cash Balance	= \$ 69,963.78

Chapter 2

BUDGETS

Exercise 7

COMPLETING BUDGET SUMMARY FORMS

Purpose

How to prepare budget summary forms from the City Budget Manual. Don't forget, this is the Budget Summary portion of the budget using the individual budget sheets for revenues and expenditures created in this exercise.

Format

Small groups

Resources needed

Calculators, pencils, handouts (2 sheets)

Time Requirement

0:10

Background

This exercise completes the budget preparation series begun with #1.

Activity

Participants receive budget summary forms to complete. After the time is up, the class reviews and discusses the budget summary forms.

FY 03 BUDGET SUMMARY - REVENUES		
LOCALLY GENERATED REVENUES:		
		Line reference
Tax Revenues	\$ _____	1
Special Assessments	\$ _____	2
Licenses & Permits	\$ _____	3
Fines & Penalties	\$ _____	4
Contracted Services	\$ _____	5
Service Charges	\$ _____	6
Enterprise Revenues	\$ _____	7
Rentals	\$ _____	8
Leases	\$ _____	9
Sales	\$ _____	10
Other Local Revenues	\$ _____	11
Total Locally Generated Revenues	\$ _____	12 Subtotal
OUTSIDE REVENUE SOURCES:		
State of Alaska Shared Revenues	\$ _____	13
State Operating Grants	\$ _____	14
Federal Operating Revenues & Grants	\$ _____	15
Other Outside Revenues	\$ _____	16
Total Outside Revenues	\$ _____	17 Subtotal
TOTAL FY 03 OPERATING REVENUES		18 Total
CAPITAL / SPECIAL PROJECT REVENUE SOURCES:		
State-Funded Capital/Special Projects	\$ _____	19
Federal Capital/Special Projects	\$ _____	20
Total Revenues for Capital / Special Projects	\$ _____	21 Subtotal
TOTAL ALL FY 03 REVENUES		22 Total
Prior-Year Cash Balance	\$ _____	
TOTAL CASH AVAILABLE FY 03		Total

FY 03 BUDGET SUMMARY - EXPENDITURES		
		Line reference
Administration and Finance	\$ _____	23
Council	\$ _____	24
Planning and Zoning	\$ _____	
Police	\$ _____	25
Fire	\$ _____	26
Ambulance	\$ _____	
Other Public Safety	\$ _____	
Streets and Roads	\$ _____	27
Airport	\$ _____	28
Harbor and Dock	\$ _____	29
Electric Utility	\$ _____	30
Water and Sewer	\$ _____	31
Washeteria	\$ _____	32
Garbage and Landfill	\$ _____	33
Fuel Sales	\$ _____	
Cable TV	\$ _____	
Bingo and Pull Tabs	\$ _____	
Mass Transit	\$ _____	
Phone Utility	\$ _____	
Other Enterprise: _____	\$ _____	
Other Enterprise: _____	\$ _____	
Other Public Works	\$ _____	
Health Facility	\$ _____	34
Other Health and Welfare Services	\$ _____	
Parks and Recreation	\$ _____	
Library	\$ _____	
Museum and Cultural	\$ _____	
Other Public Service: _____	\$ _____	
Other: _____	\$ _____	
Other: _____	\$ _____	
TOTAL FY 03 OPERATING EXPENDITURES	\$ _____	35 Total
CAPITAL / SPECIAL PROJECT EXPENDITURES:		
State-Funded Capital/Special Projects	\$ _____	36
Federal Capital/Special Projects	\$ _____	37
Total Capital / Special Projects Expenditures	\$ _____	Subtotal
TOTAL ALL FY 03 EXPENDITURES	\$ _____	Total

Answer Sheet

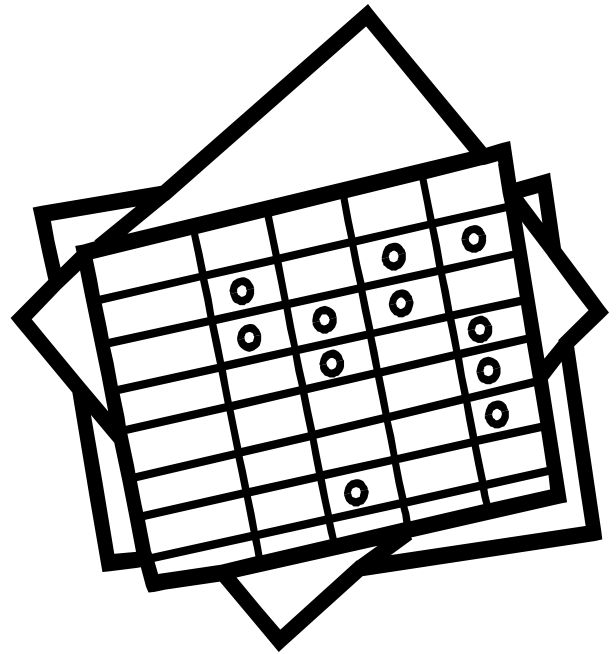
FY 03 BUDGET SUMMARY - REVENUES			
LOCALLY GENERATED REVENUES:			Line reference
Tax Revenues	\$		1
Special Assessments	\$		2
Licenses & Permits	\$		3
Fines & Penalties	\$		4
Contracted Services	\$	38,000.00	5
Service Charges	\$	500.00	6
Enterprise Revenues	\$	290,563.41	7
Rentals	\$	27,000.00	8
Leases	\$		9
Sales	\$	9,125.00	10
Other Local Revenues	\$	1,350.00	11
Total Locally Generated Revenues	\$	366,538.41	12 Subtotal
OUTSIDE REVENUE SOURCES:			
State of Alaska Shared Revenues	\$	38,500.00	13
State Operating Grants	\$	99,000.00	14
Federal Operating Revenues & Grants	\$	16,500.00	15
Other Outside Revenues	\$		16
Total Outside Revenues	\$	154,000.00	17 Subtotal
TOTAL FY 03 OPERATING REVENUES	\$	520,538.41	18 Total
CAPITAL / SPECIAL PROJECT REVENUE SOURCES:			
State-Funded Capital/Special Projects	\$		19
Federal Capital/Special Projects	\$		20
Total Revenues for Capital / Special Projects	\$	-	21 Subtotal
TOTAL ALL FY 03 REVENUES	\$	520,538.41	22 Total
Prior-Year Cash Balance	\$	69,963.78	
TOTAL CASH AVAILABLE FY 03	\$	590,502.19	Total

Answer Sheet

FY 03 BUDGET SUMMARY - EXPENDITURES			
			Line reference
Administration and Finance	\$	62,173.00	23
Council	\$		24
Planning and Zoning	\$		
Police	\$		25
Fire	\$		26
Ambulance	\$		
Other Public Safety	\$		
Streets and Roads	\$		27
Airport	\$		28
Harbor and Dock	\$		29
Electric Utility	\$		30
Water and Sewer	\$	83,481.00	31
Washeteria	\$	30,483.00	32
Garbage and Landfill	\$		33
Fuel Sales	\$		
Cable TV	\$		
Bingo and Pull Tabs	\$		
Mass Transit	\$		
Phone Utility	\$		
Other Enterprise:	\$		
Other Enterprise:	\$		
Other Public Works	\$		
Health Facility	\$		34
Other Health and Welfare Services	\$		
Parks and Recreation	\$		
Library	\$		
Museum and Cultural	\$		
Other Public Service:	\$		
Other:	\$		
Other:	\$		
TOTAL FY 03 OPERATING EXPENDITURES	\$	176,137.00	35 Total
CAPITAL / SPECIAL PROJECT EXPENDITURES:			
State-Funded Capital/Special Projects	\$		36
Federal Capital/Special Projects	\$		37
Total Capital / Special Projects Expenditures	\$	-	Subtotal
TOTAL ALL FY 03 EXPENDITURES	\$	176,137.00	Total

Chapter 3

Chart of Accounts



Financial Management for Utility Managers
Department of Community and Economic Development

Instructor Notes

Welcome back and review

It is recommended that you spend the first ten minutes of class reviewing the concepts presented in chapters #1 and #2.

Chapter 3 – Chart of Accounts

Chapter 3 presents the elements, the format and the purpose of the chart of accounts. Coding transactions to funds, function codes and expense codes is presented from the MFR manual format. It is important in this chapter to spend adequate time defining the key terms. **Instructors call attention to the fact that in doing this chapter remember what we talked about in chapter one when we discussed that every account has debit and credit columns. When talking about the Chart of Accounts every account (line item) will have debit entries and credit entries.**

Exercises

There are three exercises for chapter 3

#1 – a fun game to categorize accounts into their proper type

#2 – a speed game of coding transactions to accounts.

#3 – analysis of a payroll journal to discover all the accounts effected.

Worksheet

Have participants complete the worksheets located at the end of the chapter. When participants are finished, solicit answers from volunteers. Correct the worksheet before proceeding, participants with 80% or higher (miss less than 6 questions) demonstrate an understanding of the material. Participants with scores less than 80% are asked to review the chapter that evening

Wrap-up

Give opportunity for questions and answers before ending class. Participants are responsible for their materials.

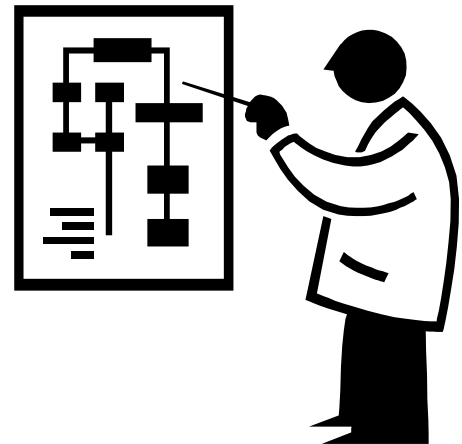
Exercise Notes

The first two exercises should be presented as games, stressing the fun element. Instructors need to promote the competitive nature of the exercises with “starting guns”, prizes, yells of encouragement.

Chart of Accounts

Objectives

- Understand and identify governmental fund types
- Define, identify, and understand the relationship between assets, liabilities, fund equity, revenues and expenditures
- Develop a chart of accounts
- Analyze transactions and enter them in the accounts effected



Key Terms

- | | |
|-----------------------------------|------------------------------|
| • Fundamental accounting equation | • Debit |
| • Assets | • Credit |
| • Liabilities | • Balance Sheet |
| • Fund Balance | • Funds |
| • Expense | • General Fund |
| • Revenue | • Enterprise or Utility Fund |
| • Current | • Grants Fund |
| • Long-term | • Transaction |
| • Liquidity | • Normal balance |

Introduction

A chart of accounts is a means of analyzing, organizing and tracking accounts usually using a numbering system.

The best everyday analogy we are familiar with, that would best represent the purpose of a chart of accounts is lunch bags. We all are familiar with the process of separating our receipts, for the dreaded taxman, into separate bags. Into one bag we put all the receipts, into another bag we put all contributions. These bags assist us in collecting and separating all the transactions (in this situation the transactions are receipts) into their respective category. Of course we would label each bag with a title that would inform us to what nature of receipt was inside. When all the bags were complete and all the receipts assigned to different bags, we would then tally up the amounts in each bag to compute the total of each expense.

This is the function of the chart of accounts, to separate and categorize different transactions.

Funds
Overhead 94

It is strongly suggested that every government entity have three types of funds: general funds, grant or capital project funds, and enterprise funds. In addition to this, separate funds are mandated by the state for the Gaming account, for the Electric Utility Account and grantor agencies may require separate accounts for grants.

General Fund
Overhead 95

Revenues in this fund are unrestricted and are used by the local government to provide public services and to subsidize the operation and maintenance of utilities or other enterprises.

Grants Fund
Overhead 96

Program Funds

Money is received from an outside source to provide a special program. The money is restricted to the program, and if unspent will need to be returned to the provider.



Capital Project Funds

These funds are very similar to the program funds in that they are from an outside source and restricted to the designated purpose. However with capital projects, the funds are for the purchase or construction of a “capital” asset, such as the construction of a washeteria, sewer and water system, road or airport. These funds are granted for the duration of the construction period, so that if the construction of the sewer and water system takes three years, then the grant lasts three years. Most capital projects will have their own fund account.

Utility/Enterprise Funds
Overhead 97

An enterprise is a service that the city provides to ‘paying customers’ or users. The fund is called enterprise because it should run like a business (or enterprise) and be self supporting. Examples are sewer and water service, washeteria, cable TV; a city owned store, or any other venture where the entity “sells” goods or services.

Departments

Overhead 98

General Fund

The general fund is divided into various departments. Because the city provides many services, and some of these are not self-supporting (such as police, fire, and streets & roads) they are all classed as general. Common departments of the general fund are below:

- Administration and finance
- Council
- Public Safety
 - Police
 - Fire
- Clinic or Health Facility
- Parks and Recreation
- Streets and Roads

Grants Fund

The grants fund may have grants from several grantor agencies. For example, every year communities, both incorporated and unincorporated receive Capital Project Matching grant funds. It is important to separate out each CPM grant by fiscal year. It is not good enough to simply put all CPM grants funds into one bank account without providing a means of tracking funds received for each CPM grant and tracking funds spent for each CPM grant. In addition to this, each CPM grant has its own budget, its own required report to the grantor agency and must be reported on each month to the council. In this example the CPM grant was awarded in 1995. It is possible to have such a grant open for 5 years. Thus it is possible to have open at the same time:

- FY02 CPMG
- FY01 CPMG
- FY00 CPMG
- FY99 CPMG
- FY98 CPMG

Clearly identify each CPMG and tie each to a specific budget and report to prevent tracking problems.

Utility/Enterprise Funds

As with the General Fund and the Grant Fund, it is possible to have several enterprises in the community that may or may not be in one bank account.

Description of Chart of Accounts **Overhead 99**

The chart of accounts lists categories of expenses and revenues. All the city's financial transactions can be placed in one of these categories. The categories are based on the city budget so your expenses and revenues can easily be compared with the amounts budgeted.

All transactions can be categorized as one of the following five types.

- 1. Assets** – these are all the things you *own*
 - a. Cash – All funds in checking and savings accounts and cash on hand
 - b. Investments – Stocks, bonds, and partnerships in other organizations
 - c. Accounts receivable – Money owed to you by others that you collect
 - d. Notes receivable –
 - e. Inventory – Stock on hand for resale or local government use
 - f. Prepaid expenses – Goods and services paid for in advance, like insurance and subscriptions
 - g. Fixed assets – Property, plant and equipment
 - i. Accumulated depreciation – Writing off part of the equipment because it's getting old and its useful life is of less value
 - h. Intangible assets – Things other than property that have value, not normally seen in a city or tribal governments.

Current assets are cash on hand, inventory and accounts receivable. It is very important to know the total of your current assets; since these are the cash on hand you will have to pay bills.

Overhead 100

- 2. Liabilities** – All money *owed* to others
 - a. Mortgages and loans
 - b. Accounts payable
 - c. Copier or equipment leases
 - d. Payroll taxes not yet paid
 - e. Grants sent to you by the state where the work isn't completed
 - f. Accrued payroll and vacation pay owed to employees
 - g. Lawsuits or legal actions that are currently undecided
 - h. Judgments and penalties for EPA or other infractions
 - i. Old debts such as phone bills, fuel bills and electric bills

Current liabilities such as payroll taxes, accrued payroll, accounts payable, and the current portion of your long-term debt are important to know to track what cash is on hand that is un-obligated and may be available for use.

Overhead 101

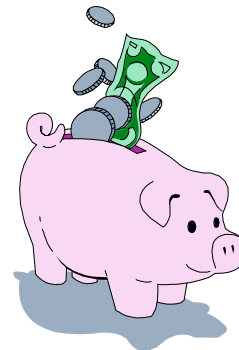
- 3. Fund Balance** – This is where all the surpluses and deficits from prior years accumulate. The fund balance is what the organization is worth.
 - a. Unrestricted – funds not obligated for a particular use
 - b. Restricted – funds obligated for a particular use

Overhead 102

- 4. Revenues - Income**
 - a. User fees
 - b. Grant revenue
 - c. Contract revenue
 - d. Rents and leases
 - e. Donations
 - f. Interest income

Overhead 103

- 5. Expenses** – Operating funds
 - a. Water/Sewer Utility
 - b. Washeteria
 - c. Electric
 - d. Telephone
 - e. Supplies
 - f. Payroll
 - g. Payroll taxes
 - h. Insurance
 - i. Per-diem
 - j. Travel
 - k. Professional fees



Number the Chart of Accounts

Overhead 104

Each fund, department, grant and enterprise is identified on your budget and assigned a means of categorizing it so that when funds are received or spent they are credited to or debited from the right fund, department, grant or enterprise. The chart of accounts is designed to do just that.

1. The first set of numbers in the series indicates the fund:

XX•XX•XXXX

This might be “01-XX-XXX” to indicate the General Fund;
Or “02-XX-XXX” to indicate the Special Revenue (Grant Fund).

Overhead 105

2. The second set of numbers in the series is called the ‘Expense function code’ and indicates the department or grant the money is spent for.

XX•**XX**•XXXX

This might be “01-30-XXX” to indicate the Police Department in the General Fund.

Overhead 106

3. The last set of numbers in the series indicates the account (revenue object code or expense object code). These numbers are presented in number ranges. This number range allows the program to separate and total all accounts within a certain number range, such as all accounts numbered between 1000 and 1999 are assets.

XX•XX•**XXXX**

- 1000-1999 Assets
- 2000-2999 Liabilities
- 3000-3999 Fund Balance
- 4000-4999 Revenues
- 5000-5999 Expenditures

For example “01-30-5110” might be used to indicate payroll salary expenditures for the Police Department in the General Fund.

There is no set numbers for each item in the chart numbering system; they differ from one organization to another because organizations differ. One community may have bingo and pull-tabs, while another community has cable TV service. A third community may have both. So no charts of accounts are identical. However, there are some similarities:

The advantages of using a numbering system for the chart of accounts is the ability to see the complete coding on the transaction receipts, such as the check voucher. A notation of “03-92-5310” might represent the telephone expense of the washeteria on the Enterprise Fund.

The disadvantage of the numerical Chart of Accounts is that unless the number patterns are memorized, then you have to look up each number to complete the coding. The number codes also need to be published at each location where financial transactions are reported, and the numbers tend to be prone to error, without any means to double check the accuracy of the coding.



Of course, the same thing can be accomplished in the hand system by writing information on the memo line of the check, showing which fund, department, grant or enterprise is affected and on the deposits showing which fund, department, grant or enterprise is being credited. With newer computer programs, such as QuickBooks, there is no numbering system. This is accomplished instead by setting up the budget information in much the same way using account titles; and accessing then recording the information with just a few keystrokes.

The benefit of a chart of accounts whether it be by how you set it up in a computer program or through use of a numbered chart of accounts in a manual system is that it allows you the ability to sort transactions entered in your record keeping system. The benefit is an audit or paper trail that anyone is able to follow.

Overhead 107

Chart of Accounts			
Funds			
01	General Fund		
02	Grant Fund / Special Revenue Fund		
03	Utility / Enterprise Fund		
Expense Function Codes			
General			
10	City Council		
20	Administration and Finance		
21	Planning and Zoning		
30	Police (Public Safety)		
31	Fire / Other Public Safety		
40	Street and Roads (Public Works)		
41	Refuse Collection (Public Works)		
50	Health (Clinic)		
60	Parks and Recreation		
70	Airport		
71	Other Expenditures		
72	_____		
73	_____		
74	_____		
75	_____		
76	_____		
	77	_____	
	78	_____	
	79	_____	
	(Assign as Necessary)		
Grants			
80	RDA Grant #		
81	CDBG Grant #		
82	Suicide Prevention Grant #		
83	DOA Grant #		
84	_____		
85	_____		
86	_____		
	87	_____	
	88	_____	
	(Assign as Necessary)		
Utility			
90	Electric Utility		
91	Sewage Disposal and Treatment and Water Plant		
92	Washeteria		
93	Public Fuel Sales		
94	Cable TV		

Overhead 108

Revenue Object Codes

4900	Sales Tax
4901	Bingo
4902	Pull Tabs
4903	Cable Television
4904	Water/Sewer
4905	Washeteria/Sauna
4906	Building Rental
4907	Equipment Rental
4908	Land Sales
4909	Fines/Penalties
4910	AVEC Reimbursement
4911	Water/Sewer Agreement/Contract
4912	Interest Earnings
4913	Soda Pop Sales
4914	Photo Copies
4915	Utility (Misc.)
4916	Utility Customer Payments
4917	Utility PCE Reimbursements
4918	Miscellaneous Revenue
4919	_____ Local Sources Assign as Necessary
4920	State Revenue Sharing
4921	State Municipal Assistance
4922	State Raw Fish Tax Refunds
4923	State Court Lease
4924	State Telephone & Electric Co-op Tax Refunds
4925	_____ State Sources Assign as Necessary
4926	_____ State Sources Assign as Necessary
4927	_____ State Sources Assign as Necessary
4928	_____ State Sources Assign as Necessary
4929	_____ State Sources Assign as Necessary
4930	Alaska Native Health Service (Clinic) Lease
4931	_____ Federal Sources Assign as Necessary
4932	_____ Federal Sources Assign as Necessary
4933	_____ Federal Sources Assign as Necessary
4934	_____ Federal Sources Assign as Necessary
4935	_____ Federal Sources Assign as Necessary
4936	_____ Federal Sources Assign as Necessary
4937	_____ Federal Sources Assign as Necessary
4938	_____ Federal Sources Assign as Necessary
4939	_____ Federal Sources Assign as Necessary
4940	RDA Grant
4941	CDBG Grant
4942	Suicide Prevention Grant
4943	DOA Grant #
4944	_____
4945	_____
4946	_____
4947	_____
4948	_____
4949	_____
(944 - 949 Other Grant Sources Assign as Necessary)	

Overhead 109

Expense Object Codes

5100 Personnel Services

- 5110 Payroll and Salaries
- 5120 Stipends
- 5130 Payroll Taxes
- 5140 Workers Compensation
- 5150 Retirement/Pension
- 5160 Non-retirement Benefits
- 5170 Certifications
- 5180 Administration, Electric Utility
- 5190 Other

5200 Travel

- 5210 Airfare
- 5220 Ground Transportation
- 5230 Per Diem
- 5240 Training Workshops
- 5250 Other

5300 Facility Expenses

- 5310 Telephone
- 5320 Rent
- 5330 Electricity
- 5331 Fuel Oil
- 5332 Diesel
- 5332 Gas
- 5334 Hydro
- 5335 Coal/Wood
- 5340 Repairs/Maintenance Buildings
- 5350 Repairs/Maintenance Utility
- 5351 Amortization of Major Overhauls
- 5352 Emergency Repairs, Utility
- 5353 Other, Rep/Main, Utility
- 5360 Other

5400 Equipment

- 5410 Equipment Purchases
- 5420 Materials
- 5430 Supplies
- 5440 Parts
- 5450 Equipment Rental

5500 Other Operating Expenses

- 5510 Interest & Late Charges
- 5520 Insurance & Bonding
- 5530 Member Dues & Subscriptions
- 5540 Bank Charges
- 5550 Audit/Accounting/Legal
- 5560 Elections
- 5570 Freight
- 5580 Loans, Utility
- 5581 Fuel Loan, Utility
- 5582 Expenses, Fuel Loan, Utility
- 5590 Other, Utility

5600 Contractual

- 5610 Capital Improvements
- 5620 Other
- 5630 Engineering & Professional Fees

5700 Other Operating Expenses

- 5710 Office & Clerical
- 5720 Postage
- 5730 Copier
- 5740 Chemicals
- 5750 Water Testing
- 5760 Fuel for Resale
- 5770 Power Plant Parts/Supplies
- 5771 Lube Oil
- 5772 Oil/Fuel Filters
- 5773 Small Tools (Under \$200)
- 5774 Other, Power Plant
- 5780 Other

Chart of accounts in QuickBooks accounting system

Chart of Accounts			
Acct #	Account Name		\$ Amount
1000		Assets	
	1100	Current Assets	
	1110	Cash	
	1120	Accounts Receivable	
	1130	Inventories	
	1140	Prepaid Expenses	
	1200	Property, Plant & Equipment	
	1210	Land	
	1220	Buildings	
	1230	Utility System	
	1240	Construction Work in Progress	
	1250	Equipment	
2000		Liabilities	
	2100	Current Liabilities	
	2110	Accounts Payable	
	2120	Payroll Taxes Payable	
	2130	Accrued Interest Payable	
	2140	Notes Payable	
	2200	Long-Term Debt	
3000		Fund Balance	
	3100	Retained Earnings	
	3200	Other	
4000		Operating Revenues	
	4100	Fees & Service	
	4110	Hook-up Fees	
	4120	Other	
	4200	Residential	
	4300	Commercial	
	4400	School District	
	4500	Contractual	
	4600	Other	
5000		Non-Operating Revenues	
	5100	Interest Income	
	5200	Gain on Sale of Assets	
	5300	Transfers	
	5310	Interfund	
	5320	Intergovernmental	
	5321	State	
	5322	Federal	
	5400	Other	

Chart of Accounts			
Acct #		Account Name	\$ Amount
6000		Operating Expenses	
	6100	Personnel	
	6110	Salaries	
	6120	Stipends	
	6130	Payroll Taxes Payable	
	6140	Workers Compensation	
	6150	Retirement/Pension	
	6160	Non-retirement Benefits	
	5170	Certifications	
	6180	Other	
	6200	Travel	
	6210	Airfare	
	6220	Ground Transportation	
	6230	Per Diem	
	6240	Training Workshops	
	6250	Other	
	6300	Facilities	
	6310	Telephone	
	6320	Rent	
	6330	Electricity	
	6340	Water & Sewer	
	6350	Fuel Oil	
	6360	Repairs/Maintenance Buildings	
	6370	Other	
	6400	Equipment	
	6410	Materials	
	6420	Supplies	
	6430	Parts	
	6500	Other	
	6510	Interest & Late Charges	
	6520	Insurance & Bonding	
	6530	Member Dues & Subscriptions	
	6540	Bank Charges	
	6550	Audit/Accounting.Legal	

Chart of Accounts			
Acct #		Account Name	\$ Amount
7000		General & Administrative	
	7100	Contractual	
	7110	Capital Improvements	
	7120	Other	
	7200	Engineering and Professional Services	
	7300	Supplies	
	7310	Office & Clerical	
	7320	Postage	
	7330	Copier	
	7340	Chemicals	
	7350	Water Testing	
	7360	Other	
	7400	Salaries	
	7500	Workers Compensation	
	7600	Retirement/Pension	
	7700	Non-retirement Benefits	
8000		Non-Operating Expenses	
	8100	Capital/Special Projects Expenses	
	8110	State Funded	
	8120	Federal Funded	
	8130	Own Source	

NOTE: Exercise 1 - Bag'em

What is a Business Transaction?

Overhead 110

A business transaction is an economic event that has some effect on the resources of a firm or on the sources of a firm's assets. These economic events are important and therefore must be recorded and reported to decision-makers.

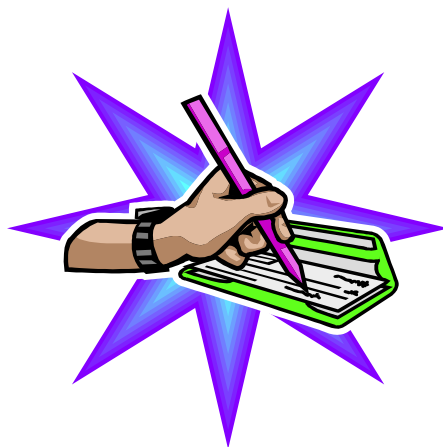
Every check and every dollar taken in IS a part of a transaction and must be posted on the proper ledgers and reported through the system to end up on the financial statements (audit trail – paper trail).

How Do You Record a Transaction?

Overhead 111

If it is determined that the transaction changes resources, and it is appropriate to record the transaction, then the transaction is entered into the records of the organization. Knowing where to record the transactions is then the next step.

Look at the transaction, see where it belongs and put it there. Make sure deposits and disbursements are recorded in the proper checking account. Make sure they are associated with the correct fund, department, grant or enterprise. This is important no matter the type of system used.



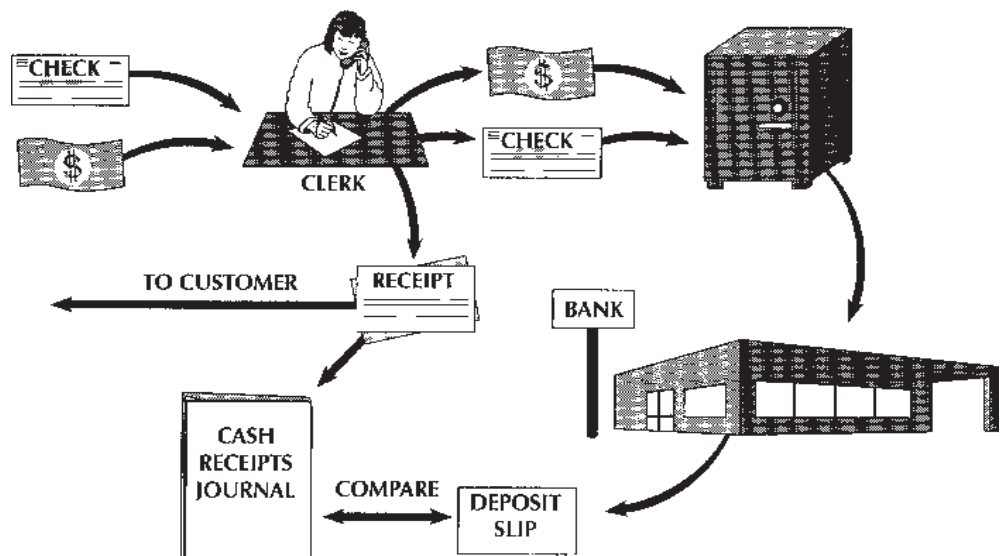
Recording a Cash Receipt

Overhead 112

The organization receives money, either in check or currency. The first step to recording this transaction, whether manual or computerized records are maintained, is to write a cash receipt. Auditors (or advisors) look at the cash receipt book to total all the money that has been collected.

Next, when enough receipts are collected to deposit (or minimally every Friday), the receipts are collected together and recorded on a deposit slip. The amount of the slip is then entered as a line item to the check register.

The flow chart below demonstrates the process of handling cash receipts, from receiving the money to depositing the amount in the bank.



Recording a Cash Disbursement (Purchase)
Overhead 113

The term “cash disbursement” is a bit of a misnomer since a cash disbursement is always recorded as a check. Currency is never used. When the city purchases an item or service, or pays a bill, it always pays by check. Three part voucher checks, with copies that can be attached to the related invoice or bill, are recommended. The check should be completely filled out with the vendor, amount, date, and required signatures. The memo field and voucher must be completely filled out with a reference to an invoice, or the item purchased. The voucher portion should list the fund, department or grant, and cost code.

DATE	DESCRIPTION	AMOUNT	DEDUCTIONS	NET AMOUNT

Manual check register
Overhead 114

In the manual accounting system the check is typed, and the check information is entered into the check register. The right side of the check register records the check, deposits, and the running balance in the checking account. The left side of the check register contains columns to separate the different types of expenditures to the appropriate department or grant. Business Check Registers with 20 columns or more are recommended. A check register is required for each checking account. Examples of the two sides of the check register are shown below. The check information is entered into the right side of the register and the amounts transferred to the appropriate cost code on the left side.

EKONOMIK CHECK & DEPOSIT REGISTER										FORM E-20		CREDIT		BANK ACCOUNT	
Register Check Before Drawing															
Date	Line No.	In Favor Of	In Payment Of	Posted on Page	Check #	Discount	Amount of Check	Paid	Date of Deposit	Amt of Deposit	Balance				
			Amounts Forward								2 9 3 4 5 88				
7/1/02	1	Golden Heart Water Testing	Other Operating Expenses Water Testing				3 5 00				2 9 3 1 0 88				
7/4/02	2	Northern Chemicals	Supplies Chemicals				4 5 00				2 9 2 6 5 88				
7/5/02	3	Alaska Store	Supplies Officer & Clerical				5 5 0 00				2 8 7 1 5 38				
7/8/02	4	Borealis Fuels	Facility Expenses Fuel Oil				1 0 1 5 00				2 7 7 0 0 38				
7/9/02	5	Delta Copiers	Equipment Equipment				1 1 5 00				2 7 5 8 5 38				
7/11/02	6	George Nathaniel	Personal Ser Council Stipends				7 5 00				2 7 5 1 0 38				
	7														
	8														
	9														
	10														
	11														
	12														
	13														
	14														
	15														
	16														
	17														
	18														
	19														
	20														
	21														
	22														
	23														
	24														
	25														
			Amounts Forward												

Debit distribution of the check register
Overhead 115

When the check is written on the check register, the amount of the check is transferred to the appropriate column on the debit distribution side.

When the page is complete the columns are totaled and the totals transferred to the top line of the next page. At the end of the month all the columns are totaled and these are the amounts used in the preparation of the monthly financial statement. One method used to summarize the year to date amounts is using the last page (or first page) of the register for monthly totals, which can then be used to calculate the year-end reports.

DEBIT DISTRIBUTION													
Line No.	Salaries	Stipends	Telephone	Rent	Fuel Oil	Equipment	Supplies	Airfare	Per Diem	Training	Postage	Chemical	Testing
1													35.00
2												45.00	
3							550.50						
4					1,015.00								
5						115.00							
6		75.00											
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													
17													
18													
19													
20													
21													
22													
23													
24													
25													

LEFT SIDE

QuickBooks check and check register
Overhead 116

In a computerized system the check entry automatically enters the check into the check register and separates the transactions into the appropriate cost.

Entering checks into the computerized accounting system is remarkably similar to typing out the check in the manual system. The screen representation in the new computer programs looks like a check and the data entry is sequenced like the manual check entry.

The screenshot shows the 'Write Checks' window in QuickBooks Premier 2002. The window title is 'Sandy's Alaskan City - QuickBooks Premier 2002'. The menu bar includes File, Edit, View, Lists, Company, Customers, Vendors, Employees, Banking, Reports, Window, and Help. The toolbar contains icons for P.O., Cash Sale, Invoice, Check, Bill, Cust, Item, Vend, Reg, Acct, MemTx, Rmnd, Find, Support, and Backup. The left sidebar has a 'Navigators' section with links to Company, Customers, Vendors, Employees, Banking, Business Services, Reports, and Help & Support. Below this is an 'Open Windows' section with links to Write Checks - General F..., Banking Navigator, Reminders, and Class List. The main window is titled 'Write Checks - General Fund Checking'. It features a 'Bank Account' dropdown set to 'General Fund Checking' and an 'Ending Balance' of 27,510.38. A 'Find' button is in the top right. The check form includes a 'Pay to the Order of' dropdown set to 'Golden Heart Water Testing', a 'Date' of 07/01/2002, and a 'No. To Print' of 35.00. The amount is entered as \$ 35.00. The check number is 'Thirty-five and 00/100'. The address is 'Golden Heart Water Testing, P.O. Box 844510, Fairbanks, AK 99708'. The memo field is empty. Below the check form is an 'Expenses' table with columns for Account, Amount, Memo, Customer/Job, and Class. The table shows one entry: 'Other Operating Expenses/Wa...' with an amount of 35.00 and a class of 'Enterprise Fund/Wat...'. At the bottom of the window are buttons for 'Clear Splits', 'Recalculate', 'Save & Close', 'Save & New', and 'Revert'. A status bar at the bottom reads 'You won't have to worry about payroll taxes with QuickBooks Payroll Services.'

Account	Amount	Memo	Customer/Job	Class
Other Operating Expenses/Wa...	35.00			Enterprise Fund/Wat...

QuickBooks check register
Overhead 117

The computer system reports the check register, again to look similar to the manual system. However, unlike the left side of the manual check register the separation of the accounts is not reflected on the register of the computerized system. An example of a QuickBooks check register is shown below.

Date	Number	Type	Account	Payee	Memo	Payment	✓	Deposit	Balance
12/31/2001		DEP	General Fund Balance	Balance Forward			✓	29,345.88	29,345.88
07/01/2002	To Print	CHK	Golden Heart Water Testing			35.00			29,310.88
07/04/2002	To Print	CHK	Other Operating Expenses:Water Testing			45.00			29,265.88
07/05/2002	To Print	CHK	Northern Chemicals			550.50			28,715.38
07/08/2002	To Print	CHK	Supplies:Chemicals	Computer memory upgrade		1,015.00			27,700.38
07/09/2002	To Print	CHK	Alaska Store			115.00			27,585.38
07/11/2002	To Print	CHK	Supplies:Officer & Clerical Supplies	Monthly copier lease		75.00			27,510.38
07/11/2002	To Print	CHK	Borealis Fuels						
07/11/2002	To Print	CHK	Facility Expenses:Fuel Oil						
07/11/2002	To Print	CHK	Delta Copiers						
07/11/2002	To Print	CHK	Equipment:Equipment						
07/11/2002	To Print	CHK	George Nathaniel						
07/11/2002	To Print	CHK	Personal Services:Council Stipends						
Ending balance									27,510.38

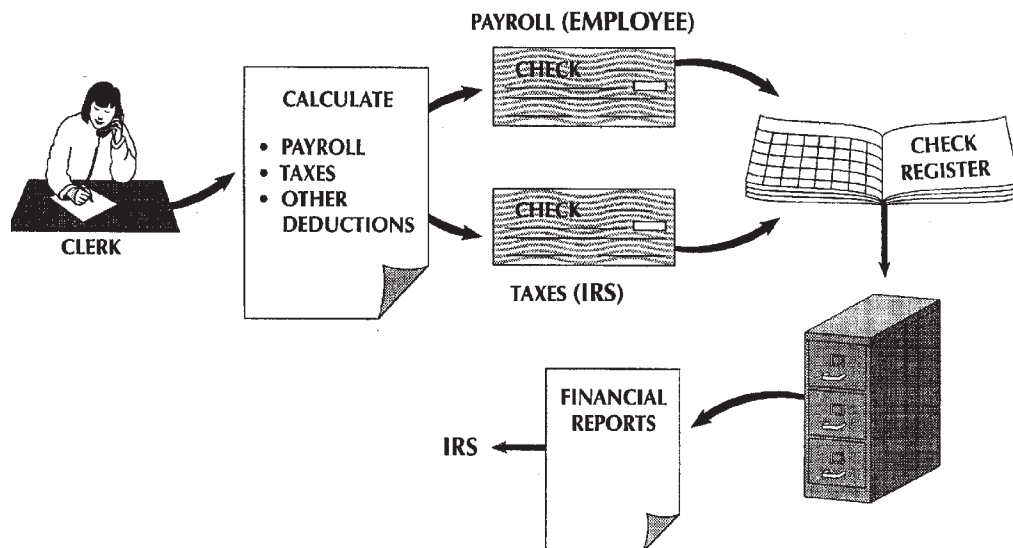
Recording Payroll

Overhead 119

Recording payroll and the associated payroll taxes is a major process of any organization's bookkeeping. Payroll begins with the employee timesheet, completed by the employee and authorized by the supervisor. From the timesheet, the bookkeeper prepares the individual pay record and paycheck.

Control over payroll is best when several personnel prepare the different steps in the payroll cycle. However, in many communities, this separation of duties is not possible. When one individual is responsible for all aspects of payroll preparation, it is important that the authorization process be carefully followed and documented. Such as individual may not be a check signer.

Payroll System



Employee Pay Record

Overhead 121

The employee pay record tracks employee earnings for the year. It is a source document for determining when employees reach gross earnings after which their wages are no longer subject to taxes such as Alaska Employment Security Contribution (ESC) and, if applicable, federal unemployment tax (FUTA).

The pay record is a source document for W-2 information at the end of the year. One of these records is maintained for each employee, and totaled for each quarter.

[illegible]

Payroll preparation in QuickBooks
Overhead 122

Payroll preparation, after the initial setup, is fairly automated. Once the employee information, information about pay rates, payroll taxes, and any other employee deductions such as court ordered child support as well as sick or annual leave accrual are entered in the computer the program will automatically calculate the correct taxes and deductions and create the payroll check. Payroll taxes and other withholding amounts are also calculated for payment to the various agencies.

Saving time is what clerks like about computerized payroll. Once the payroll information is entered and set up, what remains to be done is input the timesheet information each pay period. Posting payroll to individual records, departments and grants, and payroll tax reports is reported without any additional entry from personnel. This saves hours of posting time for busy clerks.

The data entry screen below shows how timesheet information is entered in payroll creation. The screen shown below demonstrates input of hours worked, all other entries were calculated by the program.

Review Paycheck
Rocky S. Evans
Pay Period: 07/01/2002 - 07/15/2002
Class: Enterprise Fund...

Item Name	Rate	Hours	Customer/Job
Hourly Rate	12.00	80.00	

Sick Available: 0:00
Vacation Avail: 0:00
Sick Accrued:
Vac. Accrued:
☐ Do not accrue time

Item Name	Rate	Quantity
-----------	------	----------

Item Name	Amount	YTD
Hourly Rate	960.00	8,064.00
Federal Withholding	-117.00	-1,311.00
Social Security Employee	-59.52	-553.04
Medicare Employee	-13.92	-129.34

Item Name	Amount	YTD
Social Security Company	59.52	553.04
Medicare Company	13.92	129.34
Federal Unemployment	7.68	7.68

Check Amount: 769.56

OK Cancel Help

Overhead 123

The payroll check below is the product of the above process. **It is important to note, you must subscribe to tax tables when using QuickBooks otherwise you won't have up to date information on the latest tax tables.**

The screenshot shows the 'Paycheck - Anywhere City Bank' window in QuickBooks Premier 2002. The window has a menu bar (File, Edit, View, Lists, Company, Customers, Vendors, Employees, Banking, Reports, Window, Help) and a toolbar with icons for Invoice, Cust, Item, MemTx, Vend, Check, Bill, Reg, Acct, Rmnd, Find, Support, and Backup. The 'Paycheck' window includes a 'Bank Account' dropdown set to 'Anywhere City Bank' and an 'Ending Balance' of -769.56. The main form area is divided into sections: 'Pay to the Order of' (Rocky S. Evans), 'No. To Print' (07/16/2002), 'Date' (07/16/2002), and 'Amount' (\$ 769.56). Below this is a text field for 'Seven hundred sixty-nine and 56/100*' followed by 'Dollars'. The 'Address' section contains 'Rocky S. Evans', 'PO Box 100', and 'Anywhere City, AK 99717'. A 'Memo' field is at the bottom. A 'Paycheck Summary' table is shown with a 'To be printed' checkbox. The table has columns for 'Earnings', 'Additions', 'Taxes', 'Deductions', 'Pay Period', and 'Hours Worked'. The values are: Earnings 960.00, Additions 0.00, Taxes -190.44, Deductions 0.00, Pay Period 07/01/2002 - 07/15/2002, and Hours Worked 80:00. A 'Paycheck Detail...' button is next to the table. At the bottom are 'Save & Close', 'Save & New', and 'Revert' buttons. The Windows taskbar at the bottom shows the Start button, several open applications, and the system clock at 11:18 AM.

Paycheck Summary		Pay Period	
Earnings	960.00	07/01/2002	07/15/2002
Additions	0.00	Hours Worked	80:00
Taxes	-190.44		
Deductions	0.00		

NOTE: Exercise 3 - Don't Make Me Do This Payroll

Recording Billings and Accounts Receivable

Billings (covered in more detail in Chapter 5) begin with the customer invoice, which records the sale. Monthly billing statements to each customer reflect the balance forward, all activity for the period including sales and payments, and often show the aged balance.

City Name City Address City, AK 99000 Phone Number		<h2 style="margin: 0;">Statement</h2>			
To:		<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: right; width: 15%;">Date:</div> <div style="border: 1px solid black; padding: 5px; width: 40%;">3/25/04</div> </div>			
Name Address City, AK 99000		<div style="border: 1px solid black; padding: 2px;">Amount Due</div>		<div style="border: 1px solid black; padding: 2px;">Amount Enclosed</div>	
		\$		\$	
Date	Transaction	Item	Amount	Balance	
02/11/2004	Balance Forward			83.00	
02/07/2004	PMT #1090		-83.00	0.00	
03/01/2004	Due 03/20/2004, monthly fee single family housing	Water-Residential	83.00	83.00	
S					

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	Amount Due
83.00	0.00	0.00	0.00	0.00	\$83.00

Computerized Billing and Statement System

Overhead 125

Customer invoice

Computer billing starts at the invoice, which records the sale. QuickBooks uses an “item” definition to establish invoices, and these expedite data entry once the items are established. Additionally, invoices for amounts that remain constant can be memorized to groups and produced rapidly.

Many communities do not mail the invoices to customers; they create the invoice as an internal document and mail the customer statement.

Anywhere City - QuickBooks Premier 2002

File Edit View Lists Company Customers Vendors Employees Banking Reports Window Help

Invoice Cust Item MemTx Vend Check Bill Reg Acct Rmnd Find Support Backup

Create Invoices How Do I?

Previous Next Print Send Find Spelling History Time/Costs

Customer: Job Susan J. Waterly Credit Check Class Enterprise ... Form Template Intuit Service Invoice

Invoice

Bill To Susan J. Waterly
PO Box 1357
Anywhere City, AK 99707

Date 02/05/2001 Invoice # 1

P.O. No. Terms Due upon R...

Item	Quantity	Description	Rate	Amount
Sewer/Water		Sewer & water services for January	25.36	25.36

Customer Message

Total 25.36

☒ To be printed ☐ To be sent Balance Due 0.00

Memo

Save & Close Save & New Revert

Automatically backup your files right from within QuickBooks. FREE 30 day trial!

Start [Icons] Anywhere City - Quic... Chapter 3.doc - Microsoft ... 11:43 AM

Customer statement

Overhead 126

To record a customer payment, data must be entered into another portion of the program. The program from this information subsequently creates the customer statement. You cannot create a customer statement; only the program will create a customer statement.

The screenshot shows the 'Create Statements' window in QuickBooks Premier 2002. The 'Dates From' field is set to 01/01/2001 and 'To' is 06/05/2001. The 'Statement Date' is 06/15/2001. Under 'Select Customers', 'One Customer' is selected, and 'Susan J. Waterly' is chosen from the dropdown. The 'Send Method' is set to 'E-mail'. Buttons for 'Preview', 'Print', and 'E-mail' are visible at the bottom.

The 'Print Preview' window shows a customer statement for 'Anywhere City' (PO Box 12345, Anywhere, AK 99777). The statement is dated 6/15/2001 and is addressed to Susan J. Waterly (PO Box 1234, Anywhere, AK 99777). The statement includes a table of transactions and a summary table.

		Amount Due	Amount Due
		100.00	100.00
Date	Transaction	Amount	Balance
01-01-2001	Balance Forward		0.00
02-15-2001	Payment	25.00	25.00
03-15-2001	Payment	25.00	0.00
04-15-2001	Payment	25.00	25.00
05-15-2001	Payment	25.00	0.00
06-15-2001	Payment	25.00	25.00
07-15-2001	Payment	25.00	0.00
08-15-2001	Payment	25.00	25.00

CURRENT	1-29 DAYS PAST DUE	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	OVER 90 DAYS PAST DUE	Amount Due
25.00	0.00	0.00	25.00	0.00	25.00

Double Entry Accounting and Debits and Credits

Overhead 127

Maybe you've heard the term "double entry accounting" and you wonder what it is. Double entry accounting is a system where every transaction is recorded in two accounts – each side equal, so that it is a balanced entry. Supposedly, this keeps everyone from making errors in their financial records (somebody was daydreaming!). Double entry accounting is the journal entry system of CPA's and accounting supervisors. It insures that the financial records cannot be distorted. For every debit there is a credit. Which brings us to the question, "That is a debit, what is a credit?" We know you couldn't wait to ask!

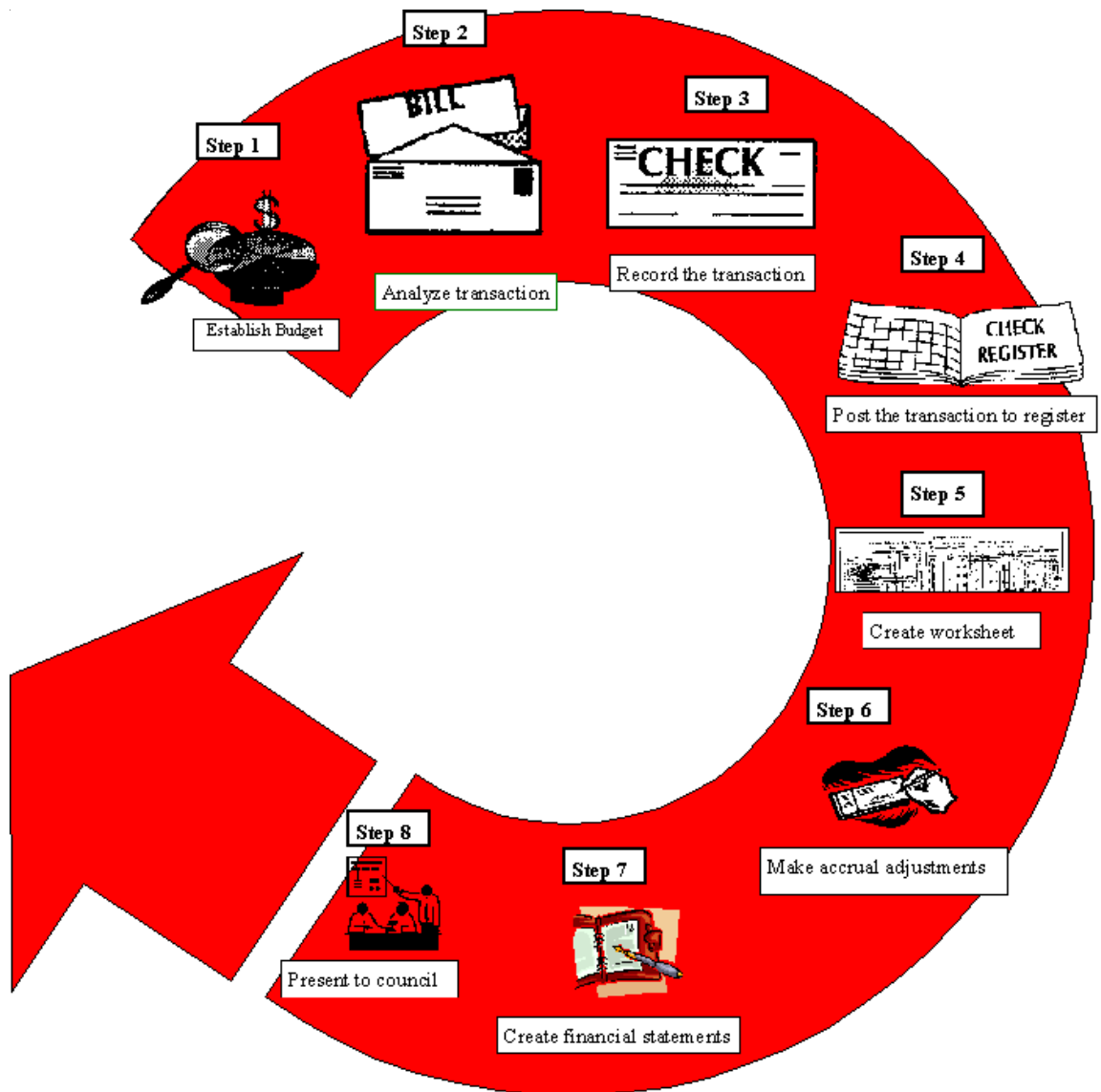
Accountants use columnar paper. Every sheet of accounting columnar paper has a description column and at least two number columns. These two number columns are debit and credit columns. Every transaction has a debit (left) side and a credit (right) side. If you write a check to pay payroll, the transaction is recorded in two accounts - the payroll expense account and the cash account. You will debit one account (payroll expense) and credit the other (cash). Consequently you will enter the payroll expense amount in the left column and the cash amount in the right column. When these amounts are transferred to ledgers, the column placement will be duplicated to the ledger page. When the two columns are totaled the left (debit) column will equal the right (credit) column.

There are both debit and credit types of accounts, meaning that if it is a debit account then a debit transaction will increase the account balance. Assets and expenses are debit type accounts. If it is a credit type account, then a credit transaction will increase the balance. Liabilities, fund balance and revenue are credit type accounts. We don't expect you to understand this concept completely; it takes a whole year to teach it in college level accounting.

This really is all you need to know about debits and credits for recording your transactions.



Accounting Cycle
Overhead 128



Notes

[illegible]

Chart of Accounts Worksheet

True or False

- ☐ T ☐ F 1) It is strongly suggested that every government entity have three types of funds, general funds, capital project funds, and enterprise funds.
- ☐ T ☐ F 2) Assets are items you have borrowed.
- ☐ T ☐ F 3) Liabilities are something that you own.
- ☐ T ☐ F 4) There is no advantage for numbering your chart of accounts.
- ☐ T ☐ F 5) A purchase order is a source document for checks written to pay for goods and services.
- ☐ T ☐ F 6) Program funds consist of money received from outside sources to provide a special program.
- ☐ T ☐ F 7) A cash disbursement is always recorded as a check.

Fill in the Blank

- 8) A _____ is a means of analyzing, organizing, and tracking accounts usually using a numbering system.
- 9) _____ is stock on hand for resale or local government use.
- 10) A _____ is a service that the city provides to 'paying customers' or users.
- 11) A _____ is all money owed to others.
- 12) The two types of fund balances are _____ and _____.
- 13) A business transaction is an economic event that has some effect on the _____ of a firm.
- 14) The first step in recording a cash transaction is to _____.
- 15) _____ accounting is a system where every transaction is recorded in two accounts to make a balanced entry.

Chart of Accounts Worksheet

True or False

- ☐ T ☒ F 1) It is strongly suggested that every government entity have three types of funds, general funds, capital or enterprise funds, and game funds.
- ☐ T ☒ F 2) Assets are items you have borrowed.
- ☐ T ☒ F 3) Liabilities are something that you own.
- ☐ T ☒ F 4) There is no advantage for numbering your chart of accounts.
- ☒ T ☐ F 5) A purchase order is a source document for checks written to pay for goods and services.
- ☒ T ☐ F 6) Program funds consist of money received from outside sources to provide a special program.
- ☒ T ☐ F 7) A cash disbursement is always recorded as a check.

Fill in the Blank

- 8) A chart of accounts is a means of analyzing, organizing and tracking accounts usually using a numbering system.
- 9) Inventory is stock on hand for resale or local government use.
- 10) An enterprise is a service that the city provides to 'paying customers' or users.
- 11) A liability is all money owed to others.
- 12) The two types of fund balances are restricted and unrestricted.
- 13) A business transaction is an economic event that has some effect on the resources of a firm.
- 14) The first step in recording a cash transaction is to write a receipt.
- 15) Double entry accounting is a system where every transaction is recorded in two accounts to make a balanced entry.

Chapter 3

CHART OF ACCOUNTS

Exercise 1

BAG 'EM

Purpose

Fun exercise to teach the concept of the five types of accounts

Format

Activity based exercise, where each participant would put 10-12 cards, each bearing the name of an account into the corresponding bag for that account type

Resources needed

5 lunch sacks for each group, labeled “Assets”, “Liabilities”, “Fund Equity”, “Revenues”, “Expenditures”, 47 cards for each group to divide among participants to place into the correct sack. Each card will have the name of an account on the front side, and a portion of a tongue twister on the reverse side.

Note: The “cards” are located on the excel spreadsheet and we had them prepared ahead of time as well as a set of lunch sacks for each table.

Time requirement

0:20

Background

This is a fun activity that reinforces the understanding of the 5 types of accounts in the chart of accounts

Activity

The group will be divided into four groups of three or four participants.

Each group will unfold and set up the five lunch sacks.

Each participant will be given a portion of the cards. Each participant, in turn, will read out their account and the group will decide where the account belongs. When all the cards have been separated into the bags, the bags will be emptied. If the cards are correctly placed, each bag will complete a tongue twister.



The cards when turned over will complete: “Theophilus Thistle, the thistle sifter, thrust three-thousand thistles through the thick of his thumb”; “Betty Botta bought a box of butter to make her bitter batter better”; “She sells sea shells down by the sea shore”; “ If Peter Piper picked a peck of pickled peppers, how many pickled peppers did Peter Piper pick?”, “How much wood can a woodchuck chuck if a woodchuck could chuck wood?”. The first group to assemble all their cards correctly wins.

Chapter 3

CHART OF ACCOUNTS

Exercise 2

CODE RED

Purpose

To teach participants how to code transactions to chart of accounts
Fun, fast, not very serious
Teach group to work as a team for speed

Format

Timed, very short (5 or 10 minutes at most).
Winner gets 1 point for every one finished, loses one point if wrong
Team with most points wins

Resources needed

Stop watch, List (supplied) or cards of transactions

Time requirement

0:15

Background

Transactions need to be coded to fund, expense function and object codes.

Activity

Participants will be divided into groups of three or four participants. Groups must be equal in size. One member of each group will be the secretary. Tell the groups to organize their coding for speed. They figure out how. Do not allow any group to begin until “Start” is called. Give 5 minutes to complete. Groups should not be able to do these at leisure pace; some may not finish. Award prize to group with most correct answers.

Code Red

Your mission if you choose to accept it is to code each of the following checks and deposits to its proper chart of accounts

FUND	Expense Function Code	Expense Object Code	Check	PAYEE	MEMO
-	-	-	1	Agnes Frank	Council stipend - meeting fee
-	-	-	2	Elstun Attorney	Legal fee for city, employee grievance
-	-	-	3	Ecowater Systems	Water testing - sewer and water plant
-	-	-	4	King Trucking	Freight - New playground equipment
-	-	-	5	Kelly Paints	Paint - Clinic repairs
-	-	-	6	Kraft Heating	Repairs - Heater in police department
-	-	-	7	Klondike Door Services	Overhead door - Public safety
-	-	-	8	MJ Rentals	Equipment rental - CDBG Grant
-	-	-	9	North Country Stoves	New monitor - Police department
-	-	-	10	Performance Shop	Oil filter - Grader for airport clearing
-	-	-	11	Rocky Evans	Payroll - Water plant operator
-	-	-	12	U.S. Post Office	Envelope and stamps - DOA Grant mailing
-	-	-	13	Village Store	Donuts - Council meeting
-	-	-	14	Cosco	Detergents - Washeteria
-	-	-	15	AK PERS System	Retirement contribution - Police department
-	-	-	16	Yukon Utilities	Electric - Water plant
-	-	-	17	Yukon Utilities	Electric - City Hall
-	-	-	18	Arctic Air	Airfare - Rocky Evans
-	-	-	19	Rocky Evans	Per Diem - Training for level II
-	-	-	20	Borealis Fuels	Heating oil - Washeteria
-	-	-	21	AK Municipal League	Membership - City
-	-	-	22	Joyce Pitak	Election Judge
-	-	-	23	Northern Supplies	Office supplies - City
-	-	-	24	Xerox	Copier Toner - Water plant
-	-	-	25	Kobuk Telephone	Telephone - Suicide Prevention Grant
-	-	-	26	Kobuk Telephone	Telephone - Clinic
-	-	-	27	Borealis Fuels	Gasoline - Fuel Depot
-	-	-	28	Home Depot	Hammer & wrench - Water plant
-	-	-	29	Wells Fargo	Payment - Fuel Loan - Water plant
-	-	-	30	Dell Computers	Computer - Clinic
Receipts					
-	-	-	1	Cash	Bingo deposit
-	-	-	2	State of Alaska	State Revenue Sharing
-	-	-	3	Receipts	Customer payments - Water/Sewer
-	-	-	4	Receipts	Washers/dryers/showers - Washeteria
-	-	-	5	Cash	Soda pop sales - Teen center
-	-	-	6	Receipts	Fines - Police department
-	-	-	7	AVEC	Reimbursement operator
-	-	-	8	Receipts	Rentals - D6 Cat Public Works
-	-	-	9	Receipts	Customer payments - Cable TV
-	-	-	10	ANHS	Clinic lease

Answer Sheet

Code Red

Your mission if you choose to accept it is to code each of the following checks and deposits to its proper chart of accounts

FUND	Expense Function Code	Expense Object Code	Check	PAYEE	MEMO
01	10	5120	1	Agnes Frank	Council stipend - meeting fee
01	20	5600	2	Elstun Attorney	Legal fee for city, employee grievance
03	91	5750	3	Ecowater Systems	Water testing - sewer and water plant
01	60	5410	4	King Trucking	Freight - New playground equipment
01	50	5360	5	Kelly Paints	Paint - Clinic repairs
01	30	5360	6	Kraft Heating	Repairs - Heater in police department
01	31	5340	7	Klondike Door Services	Overhead door - Public safety
02	81	5450	8	MJ Rentals	Equipment rental - CDBG Grant
01	30	5340	9	North Country Stoves	New monitor - Police department
01	70	5772	10	Performance Shop	Oil filter - Grader for airport clearing
03	91	5110	11	Rocky Evans	Payroll - Water plant operator
02	83	5720	12	U.S. Post Office	Envelope and stamps - DOA Grant mailing
01	10	5780	13	Village Store	Donuts - Council meeting
01	92	5780	14	Cosco	Detergents - Washeteria
03	30	5150	15	AK PERS System	Retirement contribution - Police department
01	91	5330	16	Yukon Utilities	Electric - Water plant
01	20	5330	17	Yukon Utilities	Electric - City Hall
03	91	5210	18	Arctic Air	Airfare - Rocky Evans
03	91	5230	19	Rocky Evans	Per Diem - Training for level II
03	92	5331	20	Borealis Fuels	Heating oil - Washeteria
01	20	5530	21	AK Municipal League	Membership - City
01	20	5180	22	Joyce Pitak	Election Judge
01	20	5710	23	Northern Supplies	Office supplies - City
03	91	5730	24	Xerox	Copier Toner - Water plant
02	82	5310	25	Kobuk Telephone	Telephone - Suicide Prevention Grant
01	50	5310	26	Kobuk Telephone	Telephone - Clinic
03	93	5760	27	Borealis Fuels	Gasoline - Fuel Depot
03	91	5773	28	Home Depot	Hammer & wrench - Water plant
03	91	5581	29	Wells Fargo	Payment - Fuel Loan - Water plant
01	50	5410	30	Dell Computers	Computer - Clinic
Receipts					
01	60	4901	1	Cash	Bingo deposit
01	20	4920	2	State of Alaska	State Revenue Sharing
03	91	4904	3	Receipts	Customer payments - Water/Sewer
03	92	4905	4	Receipts	Washers/dryers/showers - Washeteria
01	60	4913	5	Cash	Soda pop sales - Teen center
01	30	4909	6	Receipts	Fines - Police department
03	90	4910	7	AVEC	Reimbursement operator
01	40	4907	8	Receipts	Rentals - D6 Cat Public Works
03	94	4903	9	Receipts	Customer payments - Cable TV
01	50	4930	10	ANHS	Clinic lease

Chapter 3

Don't Make Me Do This Payroll

Exercise 3

The payroll is complete, now which accounts do I need to record it to???

Purpose

Personnel believe that when a payroll is computed the job is done. Fortunately, this one is already computed for them. This exercise demonstrates the other half of the work, posting to the account ledgers. It shows participants the numbers of accounts a single payroll journal effects.

Format

Fill in the blank with the correct accounts

Resources needed

Payroll journal handout. Student guide.

Time requirement

0:10

Background

The chapter focuses on the chart of accounts, but the latter pages show the different transactions that flow through the accounting system and the chart of accounts. Students may not grasp how the transactions tie to the chart of accounts. This exercise ties the two together.

Activity

Participants will be divided into groups of three or four participants. Each participant will get a payroll journal handout. The group is to discuss and decide what accounts are affected by the payroll journal amounts.

This exercise could also be an individual exercise, if preferred.

After time is up students are asked to state the accounts that may be involved when doing a payroll. For those participants who use QuickBooks, this explains why they may have activities that need to be completed when using QuickBooks.

Handout

[illegible]

[illegible]

Chapter 4

Rate Setting



Financial Management for Utility Managers
Department of Community and Economic Development

Rate Setting

Instructor's Notes

Welcome back and review

This chapter is not continuation of chapters 1 – 3. The presentation does not require any particular review or lead in.

Chapter 4 – Rate Setting

The chapter presents the theory and application of rate setting. Rate setting is integral to the general economic welfare of the organization and charging the user a true and fair rate needs to be stressed.

Exercises

There are three exercises connected with this chapter

Exercise #1 – setting a rate when the present rate is inadequate for expenses and building a reserve

Exercise #2 – expanding a system

Exercise #3 – establishing a rate for a new piped system

Worksheet

Participants complete the worksheet at the completion of the lesson. Satisfactory understanding is demonstrated with a score of 80% or higher.

Wrap-up

Participants who do not score satisfactorily on the worksheet need to review the chapter.

Exercise Notes

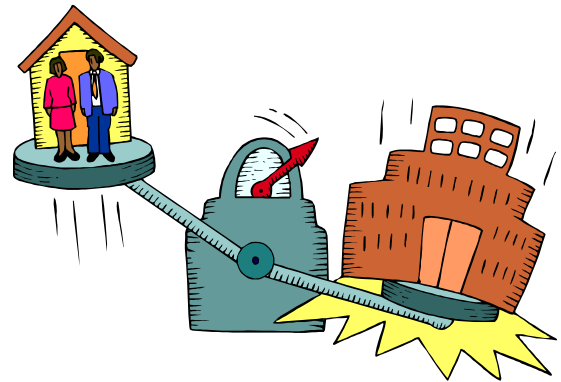
The three exercises build upon each other. Although they may not all be selected for presentation, they should be done in sequence.

Rate Setting

Overhead 129

Objectives

- Provide participants with an understanding of the rate setting process
- Provide a basic outline of how to go about establishing rates for:
 - A new utility
 - An existing utility
 - Expanding an existing utility



Key Terms

- Breakeven
- Replacement Reserve
- Usage
- Action plan
- Reserves for Repairs & Maintenance
- Utility Charges
- Operating Losses

Overview

What is rate setting?

Rate setting is the process managers use to establish a per customer charge to recover the cost of establishing, expanding, operating and maintaining a water and sewer utility.

What does it cost to operate and maintain a water and sewer utility?

Overhead 130

The key to setting rates is to generate enough revenue from rates to cover operating expenses, capital costs and emergency costs. Operating expenses include those costs to keep the system working every day, such as electricity, fuel, and operator's wages. Capital costs include replacement of equipment, expansion of the system and other major maintenance tasks. Emergency costs include funds to deal with unexpected situations, such as additional treatment required after a flood, or damage to equipment during an earthquake.

Factors that affect the rate a utility should charge

Overhead 131

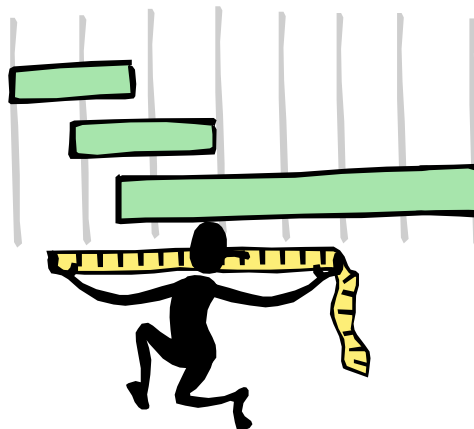
To calculate the rate a sewer and water system should charge users, many factors need to be analyzed:

- Types of customers
- Number of customers
- Amount of water used
- Is the system metered or flat rate?
- Collection rate
- Utility expenses
- Future plans

A rate setting analysis performed by RUBA advisors posed the following questions that require research before a rate can be set:

Overhead 132

- 1) What policies has the Council approved for rate setting?
- 2) What does it cost to operate and maintain the system?
- 3) What type of customer does the utility serve?
- 4) How many customers are in each group?
- 5) How much water do different customers use?
- 6) Are there meters installed for any or all customers?
- 7) Will flat rates be necessary?
- 8) How many customers pay their bills?
- 9) What other sources of money can the city use to cover operating costs?
- 10) What is the future plans for the system, expansion or renovations?



Where does the rate setting information come from?

The information needed and used in this process comes from various sources depending on whether it is a brand new utility, a utility that is already in operation or an existing utility under expansion.

1. A new utility

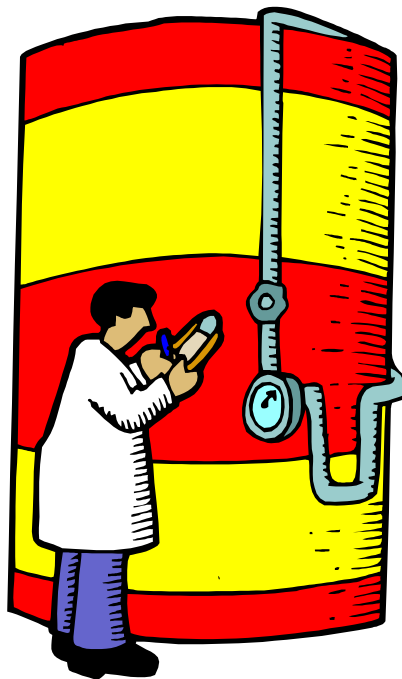
Information needed to establish utility rates for a brand new utility comes from the actual or estimated cost of construction and estimates of what it will cost to maintain and operate the utility.

2. An existing utility

For an existing utility there are various financial and management reports available that will provide the information necessary to conduct a rate study to determine if the present rates are adequate.

3. An existing utility under expansion

If the utility is to be expanded, new and or adjusted rates need to be calculated. The information required to calculate the rate adjustments comes from existing financial and management reports, the estimated or actual cost of new construction and the estimated cost of providing service to the new areas.



Why do we need a rate setting process?

Overhead 133

The rate setting process will assure that the utility can provide the money for proper management, operation, maintenance, renovation and expansion of the utility. It also assures the rate is fair to all customers. Fair and adequate rates are crucial to the financial viability of the utility system.

The effect of regulations

There are a wide variety of regulations developed by the state and federal agencies to protect the people and the environment. One such law, administered by the Regulatory Commission of Alaska, requires that any water and sewer utility serving ten or more paying customers must obtain a certificate of operation, formally called a “Certificate of Convenience and Necessity”.

What this means is each new utility must submit an application to the Regulatory Commission of Alaska for this certificate before operations may begin. The application is included in the appendix to this chapter.

All utilities are economically regulated by the state except city owned utilities exempted by AS 42.05.711. All non-owned city utilities may be exempted from regulations if approved by the members.

The State of Alaska is currently reviewing its regulations in this area with the idea of easing the regulations and their effect on rural and small utilities.

Rate Setting Plan of Action

To begin the rate setting process, the council and management of the utility gather available information and answer the questions outlined earlier in this chapter. The council needs to assemble knowledgeable personnel at a convenient location. Decision makers must have a good understanding of the council's philosophy regarding rate setting because this philosophy will impact the final rates charged to the customer.

Council policies on rate setting to be considered **Overhead 134**

It is important that council select a policy from among several different policies used in different communities:

- Rates for every customer are based on the actual cost to produce the water
- Rates must cover the cost to provide and maintain the service
- Rates may be subsidized by the general fund because the public benefits from providing a public health service.



Rate setting plan of action

Overhead 135

A rate setting action plan includes the following steps:

1. Discussion regarding need for increased utility rates
2. Assemble a rate setting committee
3. Establish a time frame
 - a. Proposed work schedule and location
 - b. Dates of meetings
 - c. Date of completion of the rate study
 - d. Date of presentation to the full board or council
 - e. Date of implementation
4. Conduct research
5. Assemble required financial Information Requirements
 - a. Current financial reports
 - b. Prior year financial reports
 - c. Management reports
6. Appointment of committee members
7. Discuss boards' philosophy regarding rate setting
8. Document written policy regarding rate setting
 - a. Public relations policies
 - b. Communications to users
 - c. Subsidized users
 - d. The fairness of the proposed rates
9. Engineering reports regarding proposed upgrades
 - a. Cost studies of proposed expansion
 - b. Cost studies of the major repairs
10. Future requirements and use
 - a. Anticipated future users of our services
 - b. Future water requirements
 - c. Cost of providing future services
11. Other Considerations

An example of a rate-setting plan of action agenda for an existing utility company is as follows:

OLD ROCKY UTILITY COMPANY	
March 20, 2002	
Management and Board of Directors Old Rocky Utility Company Some where on the Yukon	
Ladies and Gentlemen:	
I have reviewed our current financial information and several of the prior years financial reports with the Utility Company manager. We have also received a petition from the residents of Angle Creek subdivision for water and sewer hook up this summer. We believe that in order to maintain the current level of funding for the utility and extend service to the Angle Creek subdivision we will need to review and adjust our rates upward for the upcoming year that begins on October 1, 2002.	
I propose that we assemble a rate setting committee of some of the members of the board of directors, users of our services, the plant manger, Engineers, our bookkeeper and our auditors. I would also be on this committee and attend all of the meetings and work sessions.	
I would like to propose the following plan of action for conducting the rate setting action. We can discuss this proposed plan and adjust it as necessary at our first meeting.	
Proposed Plan of Action Rate setting committee Agenda	
I.	Discussion regarding need for increased utility rates. <ol style="list-style-type: none">1. Presentation by the President regarding the reasons for assembling a rate setting committee.
II.	Time frame: <ol style="list-style-type: none">1. Proposed work schedule and location2. Dates of meetings.3. Date of completion of the rate study.4. Date of presentation to the full Board.5. Date of implementation
III.	Financial Information Requirements <ol style="list-style-type: none">1. Current financial reports2. Prior year financial reports3. Management reports
IV.	Appointment of committee members
V.	Discussion regarding boards' philosophy regarding rate setting <ol style="list-style-type: none">1. Our written policy regarding rate setting2. Our public relations policies and how we are going to communicate this information to our users.3. Subsidized users4. The fairness of the proposed rates.
VI.	Engineering reports regarding proposed upgrades <ol style="list-style-type: none">1. Cost studies of proposed expansion2. Cost studies of the major repairs.
VII.	Future requirements and use <ol style="list-style-type: none">1. Anticipated future users of our services2. Future water requirements3. Cost of providing future services
VIII.	Other Considerations
IX.	Adjournment
I would like to discuss this with you at the board meeting this week so we can schedule our first meeting. Thank you for your consideration in this matter.	
Sincerely,	
The President Old Rocky Utility Company	

The mechanics
Overhead 136

Putting together a good plan of action for the rate setting committee will greatly simplify the actual activity of conducting and setting new and revised rates.

Determine the cost of service

It is recommended that utilities be self-supporting and that they do not require support from the general fund. However, it is legal for the Council to use general fund money to pay the operating costs of utilities.

To estimate the cost of service for a new utility, comparison amounts need to be evaluated from a comparable system.

To increase the size or production of an existing utility, the present costs need to be increased for the estimated increase of expenses.

If the increase in the current rate is to reduce a deficit or create a reserve fund for an existing utility, the present costs are reflected in the budget ordinance and in the profit and loss financial statement.

Determine the collection rate

Overhead 137

Breakeven is where revenues equal expenses. In order for a utility to breakeven, a factor that greatly impacts the revenue from the utility is the collection rate.

For example if a system costs \$100,000 per year to operate and there are 100 customers, then \$1,000 per year needs to be collected from each customer. This assumes all customers pay. If only 80% of the customers pay then the 80 customers who pay provide \$80,000 for the cost of operations, leaving the utility \$20,000 short of what it needs to stay in business. This is an 80% collection rate.

If only 80% of the customers pay then the 80 customers who pay must cover the cost of providing water to those who do not pay. In this example, if 80% of the customers pay, then they will need to be charged \$1,250. (\$100,000 divided by the 80 paying customers equals \$1,250 each, or 125% of the true rate).

Determine total usage

Overhead 138

Determine total usage in one of three ways:

1. Use meter readings if they are available
2. Use operator calculations if available
3. Use an estimate based on gallons used per person

Estimate the population times the number of days (for example if there are 120 people on the system times 365 days each year, the total is 43,800 usage days.

RUBA advisors have estimated that average communities use water at the following three rates per person:

1. Estimated per day usage on piped system is 60 gallons
2. Estimated per day usage on piped and haul system is 30 gallons
3. Estimated per day usage on haul system is 7 gallons

Using the population above, to estimate the usage rate for a piped system, compute the people days (43,800) times the estimated per person daily use (60). The total gallons required for residential use equals 2,628,000 gallons.

Divide usage between customers

Overhead 139

What types of customers does the utility serve?

- Residential homes
- Commercial businesses
- School
- Washeteria

Commercial businesses usually include all facilities that are used for any purpose other than a home. This includes stores, restaurants, bed and breakfast facilities, and meeting halls. Large commercial facilities normally have meters and are charged a per gallon rate.

Residential users in most communities are on a flat rate.

To determine the usage between different types of users:

1. Get the annual gallons used in the community from the utility operator
2. Get annual gallons used in the washeteria from the operator
3. Figure out how many gallons each commercial customer uses (meter readings)
4. Estimate residential, school and clinic by multiplying gallons per person per day times population times days
 - a. School students and teachers estimated at 5 gallons per day per student and teacher per day
 - b. School teachers piped to homes at 60 gallons per day
 - c. Clinic average use is 26 gallons per day per health aide
5. Divide the annual amount by the amount used by each customer type. This is the percentage used by each.

Divide cost between customers

Overhead 140

Commercial customers – multiply the percentage by the annual amount to be billed to get the annual amount for each commercial customer. Divide the annual amount by the months of service to get the monthly rate.

Washeteria – You need information on revenue to be received from washeteria or number of loads normally done at the washeteria.

Residential households – Subtract the commercial and washeteria from the total amount of expenses. Divide the remainder by the collection rate, this will give you the amount you will need to bill. Divide bill amount by the number of households, this give you the annual for each household. Divide annual by number of months, this gives you the monthly rate for each residential customer.

Building Repair Reserves

Overhead 141

The entity should set rates that will provide for a balanced budget and leave some money for an equipment replacement fund. The entity should set aside a percentage of the capital cost of the equipment every year for a replacement fund. The amount to be set aside for capital cost is based on the cost of the equipment divided by the estimated life of the equipment. For example, if a piece of equipment is to be replaced in five years and costs \$5,000 new, then \$5,000 divided by 5, or \$1,000 should be budgeted in the equipment replacement fund in each of the next five years.

Gather the information necessary to replace the system from the design and construction engineers. At least ten percent of the total amount necessary to replace the system should be set aside and reflected in the budget for eventual replacement. The average life of a system is twenty years. Divide the 10 percent replacement cost by 20 to arrive at an amount to budget per year in the replacement set aside. The amount set aside will not be enough to completely replace the system, but can be used for matching requirements on capital construction grants. Such matching costs are required to obtain grant funds.

NOTE: Exercise 1 – Breakeven
Exercise 2 – Expanding the System
Exercise 3 – A Brand New System

Notes

[illegible]

Rate Setting Worksheet

- 1) What is rate setting?

- 2) What expenses are included in the rate-setting process?

- 3) Why have a rate setting process?

- 4) Residential users in most communities are on a _____ rate.
- 5) Rates must be fair and _____.
- 6) The key to setting rates is to generate enough revenue from rates to cover operating expenses, capital costs, and emergency costs.

☐ T ☐ F
- 7) It is recommended that utilities run in the deficit and require support from other sources.

☐ T ☐ F
- 8) _____ is where revenues equal expenses.
- 9) The rate setting process for an existing utility comes from what information sources?

- 10) To estimate the cost of service for a new utility, _____ amounts need to be evaluated from a comparable system.

Rate Setting Worksheet

- 1) What is rate setting?
The process of setting the rate charged to customers for a service.
- 2) What expenses are included in the rate-setting process?
Operating expenses, capital costs, and emergency costs.
- 3) Why have a rate setting process?
The rate setting process will assure that the utility can provide the money for proper management, operation, maintenance, renovation and expansion of the utility.
- 4) Residential users in most communities are on a *flat* rate.
- 5) Rates must be fair and *equitable*.
- 6) The key to setting rates is to generate enough revenue from rates to cover operating expenses, capital costs, and emergency costs.

☒ T ☐ F
- 7) It is recommended that utilities run in the deficit and require support from other sources.

☐ T ☒ F
- 8) *Breakeven* is where revenues equal expenses.
- 9) The rate setting process for an existing utility comes from what information sources?
Financial and management reports.
- 10) To estimate the cost of service for a new utility, *comparison* amounts need to be evaluated from a comparable system.

Discussion Point

Instructors

Put this on a flip chart or overhead. There is one included in the overheads.

For example if a system costs \$100,000 per year to operate and there are 100 customers, then \$1,000 per year needs to be collected from each customer. This assumes all customers pay. If only 80% of the customers pay then the 80 customers who pay provide \$80,000 for the cost of operations, leaving the utility \$20,000 short of what it needs to stay in business. This is an 80% collection rate.

Ask the class what should be done to make up the \$20,000 dollar shortfall?

If only 80% of the customers pay, then the 80 customers who pay must cover the cost of providing water to those who do not pay. In this example if 80% of the customers pay, they will need to be charged \$1,250. (\$100,000 divided by 80 equals \$1,250) or 125% of the true rate.

Is this fair and equitable?

What's wrong with it?

Chapter 4

RATE SETTING

Exercise 1

BREAKEVEN

Purpose

Format

Small groups of 3 – 4 participants seated at table

Resources needed

Handout rate setting forms, pencil, calculator, flip chart, projector or handout

Time requirement

0:30

Background

First in a series of three exercises to demonstrate rate setting. In this exercise the water and sewer plant is operating at a loss and has no revenue to accumulate a reserve for replacements or repairs. Participants are to adjust the present rate, to breakeven on expenses and building a reserve or parts and replacement.

Activity

The class will be divided into four groups of three or four participants. Each group is required to work through rate setting process for the utility.

Rate Setting Exercise #1

Step One Determine the collection rate

55 **residential** customers were billed \$53,500

They paid \$48,000

What is the collection rate (round to nearest %) _____

Step Two Determine total residential usage

Total water produced was **3,500,000 gallons**

Operator reports school meter shows 137,000 gallons used

Operator reports washeteria used 105,000 gallons

Residential customers used how many gallons _____

School rate is 7 ½ cents (\$.075) per gallon, what is the school revenue \$ _____

Washeteria revenue is \$4,750

Total revenue from washeteria and school is? _____

What was the **total revenue** from all customers? _____

Step Three Determine the cost of service

Current **expenses** are \$65,000

Current **revenues** are \$63,025

Need to establish reserve at \$5,000 per year

Revenues need to be? _____

How much do you need to **increase revenues** by? _____

Step Four Divide total usage between customers

What was the **percentage** of use by **each type customer**

School _____%

Washeteria _____%

Residents _____%

Step Five What is the present residential rate? _____

Divide the cost of additional revenue between customers

Record the additional revenue **needed** _____

Amount to be collected from school _____

Amount to be collected from washeteria _____

Amount to be collected from residential customers _____

New monthly rate required from residential customers _____

New rate for school _____

New rate for washeteria is? _____

Total new revenues are? _____

Rate Setting Exercise #1

Step One Determine the collection rate

55 **residential** customers were billed \$53,500

They paid \$48,000

What is the collection rate (round to nearest %) $48,000 / 53,500 = .897$ or 90%

Step Two Determine total residential usage

Total water produced was 3,500,000 gallons

Operator reports school meter shows 137,000 gallons used

Operator reports washeteria used 105,000 gallons

Residential customers used how many gallons

$3,500,000 - (137,000 + 105,000) = 3,258,000$ gallons

School rate is 7 ½ cents (\$.075) per gallon, what is the school revenue

$(137,000 * .075) = \$10,275.00$

Washeteria revenue is \$4,750

Total revenue from washeteria and school is?

$(\$10,275.00 + \$4,750.00) = \$15,025.00$

What was the **total revenue** from all customers? $(\$15,025.00 + \$48,000.00) = \$63,025.00$

Step Three Determine the cost of service

Current **expenses** are \$65,000

Current **revenues** are \$63,025

Need to establish reserve at \$5,000 per year

Revenues need to be? $(\$65,000 + \$5,000) = \$70,000$

How much do you need to **increase revenues** by?

$(\$70,000.00 - \$63,025.00) = \$6,975.00$

Step Four Divide total usage between customers

What was the **percentage** of use by **each type customer**

School $(137,000 / 3,500,000) = .03914$ or 4%

Washeteria $(105,000 / 3,500,000) = .03$ or 3%

Residents $(3,258,000 / 3,500,000) = .9308$ or 93%

Rate Setting Exercise #1 - continued

Step Five What is the present **residential rate**? $(\$53,500 / 55 / 12) = \81.06

Divide the cost of additional revenue between customers

Record the additional revenue needed $\$6,975.00$
Amount to be collected from school $(6,975 * .04) = \$279.00$
Amount to be collected from washeteria $(6,975 * .03) = \$209.25$
Amount to be collected from residential customers $(6,975 * .93) = \$6,486.75$

New monthly rate required from residential customers
 $(6,486.75 / 55 / 12) = 9.83$ $(81.06 + 9.83) = \$90.89$

New rate for school $(10,275 + 279) = \$10,554.00$

New rate for washeteria is? $(4,750 + 209.25) = \$4,959.25$

Total new revenues are?
 $(90.89 * 55 * 12) = \$59,987.40 + \$10,554.00 + \$4,959.25 = \$75,500.65$

Chapter 4

RATE SETTING

Exercise 2

EXPANDING THE SYSTEM

Purpose

Work through the rate setting process for an expanding system.

Format

Small groups of 3 – 4 participants seated at table

Resources needed

Handout rate setting forms, pencil, calculator, flip chart, projector or handout

Time requirement

0:30

Background

The water and sewer plant in exercise #1 is operating at a loss and has no process to accumulate a reserve for replacements or expansion. Participants are to add new customers and adjust the new rate, so that the system breakevens on expenses and builds a reserve for parts and replacements.

Activity

The class will be divided into four groups of three or four participants. Each group is required to work through rate setting process handout for the utility. This exercise does not stand alone. This exercise is a continuation of #1.

Rate Setting Exercise #2

Step One Determine the cost of service

Current expenses are \$65,000 and will increase by 10%. Total expenses are now what?

Need to establish reserve at 10% of budgeted expenses.

This amount is? _____

The total cost of service is? _____

How much of an increase is this over last year? _____

Step Two Determine total usage

Ten new homes with 4 persons per home will be connected. It is estimated that each person will use 60 gallons per day. How many gallons will the 10 homes require?

Last year's residential use is unchanged, what is the total new residential use projected to be? _____

School meter shows 137,000 gallons

Washeteria used 105,000 gallons

What is the total usage project to be? _____

Step Three Divide total usage between customers

What was the **percentage** of use by **each type customer**

School _____%

Washeteria _____%

Residents _____%

Step Four Divide the cost between the residential customers

Record the revenue needed from step one _____

Subtract the school revenue _____

Subtract the washeteria revenue _____

Amount to be collected from residential customers _____

Step Five

Divide amount by number of **residential** customers for a total of: _____

Divide by twelve months for **new monthly residential** rate of: _____

Rate Setting Exercise #2

Step One Determine the cost of service

Current expenses are \$65,000 and will increase by 10%. Total expenses are now what?

First compute the additional expense: $(\$65,000 \times 10\%) = \$6,500.00$

Then add this to the current expense: $(\$65,000 + \$6,500) = \$71,500.00$

Need to establish reserve at 10% of budgeted expenses.

This amount is? $\$71,500 \times 10\% = \$7,150.00$

The total cost of service is? $\$71,500 + 7,150 = \$78,650.00$

How much of an increase is this over last year? $\$78,650 - 65,000 = \$13,650.00$

Step Two Determine total usage

Ten new homes with 4 persons per home will be connected. It is estimated that each person will use 60 gallons per day. How many gallons will the 10 homes require?

$(10 \times 4 \times 60 \times 365) = 876,000$ gallons

Last year's residential use is unchanged, what is the total new residential use projected to be?

$3,285,000 + 876,000 = 4,134,000$ gallons

School meter shows 137,000 gallons

Washeteria used 105,000 gallons

What is the total usage project to be? $4,134,000 + 137,000 + 105,000 = 4,376,000$ gallons

Step Three Divide total usage between customers

What was the **percentage** of use by **each customer type**

School $137,000 / 4,376,000 = .0313$ or 3%

Washeteria $105,000 / 4,376,000 = .0239$ or 2%

Residents $4,134,000 / 4,376,000 = .945$ or 95%

Step Four Divide the cost between the residential customers

Record the revenue needed from step one $\$78,650.00$

Subtract the school revenue $\$10,554.00$

Subtract the washeteria revenue $\$4,959.25$

Amount to be collected from residential customers $\$63,136.75$

Step Five

Divide amount by number of **residential** customers for a total of: $\$63,136.75 / 65 = \971.33

Divide by twelve months for **new monthly residential** rate of: $\$971.33 / 12 = \80.94

Chapter 4

RATE SETTING

Exercise 3

A BRAND NEW SYSTEM

Purpose

Work through the rate setting process for a new system.

Format

Small groups of 3 – 4 participants seated at table

Resources needed

Handout rate setting forms, pencil, calculator, flip chart, projector or handout

Time requirement

0:20

Background

This is the third exercise in the rate setting sequence. Exercises #1 and #2 need to be completed prior to this exercise.

Activity

The class will be divided into four groups of three or four participants. Each group is required to work through rate setting process handout for the utility. This exercise is not a stand-alone. This exercise is a continuation of #1 and #2.

Rate Setting Exercise #3

Facts: There are 50 residences to be connected. The flat rate method is being used. Water demand is based on 60 gallons per day times and average of 4 persons per household

Step One Determine the cost of service

Annual expenses are estimate to be: \$85,000

Establish a reserve at 10% of budgeted expenses _____

Total revenues need to be? _____

Step Two Determine total usage

The school has 62 students and 4 teachers. It is estimated that students and teachers consume 5 gallon per day. The school is open for 274 days per year.

What is the usage at the school projected to be? _____

Operator reports the washeteria used 105,000 gallons

What is the projected residential use? _____

What is the projected total water usage? _____

Step Three Divide total usage between customers

Figure out how many gallons each type of customer uses. Divide amount used by each type customer by total annual gallons

School _____ %

Washeteria _____ %

Residents _____ %

Step Four Divide the cost between the customers

Record the revenue needed from step one _____

School revenue is: _____

Washeteria revenue from step three is: _____

Residential customers is: _____

Monthly rate required from residential customers is: _____

It will be a while before the system is put in. In the meanwhile the school's use rate doesn't take into account use by residents as they gather to play basketball during the week. In fact, the school is used on a regular basis as "men's night" and "women's night" for sports activities. Naturally everyone showers after the activities. Agency people stay at the school and if they are RUBAs, they show every night. Most of the water use is at the school. We've decided to put in a flat rate use of \$1,000 per month, which would more accurately reflect use.

Rate Setting Exercise #3 - continued

Everything else will remain the same. How does this change the rates?

Divide the cost between the customers

Record the revenue needed from step one:

School revenue is:

Washeteria revenue from step three:

Residential customers:

Monthly rate required from residential customers:

Rate Setting Exercise #3

Facts: There are 50 residences to be connected. The flat rate method is being used. Water demand is based on 60 gallons per day times and average of 4 persons per household

Step One Determine the cost of service

Annual expenses are estimate to be:	<u>\$85,000</u>
Establish a reserve at 10% of budgeted expenses	<u>$(85,000 \times 10\% = \\$8,500)$</u>
Total revenues need to be?	<u>$(85,000 + 8,500) = \\$93,500$</u>

Step Two Determine total usage

The school has 62 students and 4 teachers. It is estimated that students and teachers consume 5 gallon per day. The school is open for 274 days per year.

What is the usage at the school projected to be? $(62 + 4) = 66$ and $(66 * 5 * 274) = 90,420$

Operator reports the washeteria used 105,000 gallons

What is the projected residential use? $(50 * 4 * 60 * 365) = 4,380,000$ gallons

What is the projected total water usage? $90,420 + 105,000 + 4,380,000 = 4,575,420$ gallons

Step Three Divide total usage between customers

Figure out how many gallons each type of customer uses. Divide amount used by each type customer by total annual gallons

School $(90,420 / 4,575,420) = .019$ or 2%

Washeteria $(105,000 / 4,575,420) = .022$ or 2%

Residents $(4,380,000 / 4,575,420) = .957$ or 96%

Step Four Divide the cost between the customers

Record the revenue needed from step one	<u>\$93,500</u>
School revenue is:	<u>$(93,500 * 2\%) = \\$1,870.00$</u>
Washeteria revenue from step three is:	<u>$(93,500 * 2\%) = \\$1,870.00$</u>
Residential customers is:	<u>$(93,500 * 96\%) = \\$89,760.00$</u>
Monthly rate required from residential customers is:	<u>$(89,760 / 50 / 12) = \\$149.60$</u>

It will be a while before the system is put in. In the meanwhile the school's use rate doesn't take into account use by residents as they gather to play basketball during the week. In fact, the school is used on a regular basis as "men's night" and "women's night" for sports activities. Naturally everyone showers after the activities. Agency people stay at the school and if they are RUBAs, they show every night. Most of the water use is at the school. We've decided to put in a flat rate use of \$1,000 per month, which would more accurately reflect use.

Rate Setting Exercise #3 - continued

Everything else will remain the same. How does this change the rates?

Divide the cost between the customers

Record the revenue needed from step one: \$93,500.00

School revenue is: $(1,000 \times 9) = 9,000$

Washeteria revenue from step four: \$1,870.00

(To compute the revenue needed from residential customers, determine the amount needed from them by adding the school revenue and the washeteria revenue together and subtracting this from the revenue needed.)

Residential customers: $(9,000 + 1,870) = 10,870$ $(93,500 - 10,870) = 82,630.00$

Monthly rate required from residential customers: $(82,630 / 50 / 12) = \$137.72$

Chapter 5

Collections



Financial Management for Utility Managers
Department of Community and Economic Development

Collections

Instructor's Notes

Welcome back and review

This chapter is not directly related to the preceding chapter, although they are partnered in the rate setting/collections policies. The presentation does not require any particular review or lead in.

Chapter 5 – Collections

The chapter presents the arguments, sample policies and procedures related to collections. Collections is vital to the general economic welfare of the organization and communities need to develop a collection policy and enforce it.

Exercises

There are two exercises connected with this chapter

Exercise #1 – Write a collection letter to delinquent account

Exercise #2 – Establish a collection to do list from delinquent users

Continuation Exercise (optional or replacement) consists of two parts.

Worksheet

Participants complete the worksheet at the completion of the lesson. Satisfactory understanding is demonstrated with a score of 80% or higher.

Wrap-up

Participants who do not score satisfactorily on the worksheet need to review the chapter.

Exercise Notes

The exercises are unrelated to each other and may be presented in any sequence and in any location in the lesson

Collections

Objectives

- How to record sales, sales returns, and discounts
- Introduce accounts receivable subsidiary ledger
- How to prepare a schedule of accounts receivable



Key Terms

- Inventory
- Accounts Receivable
- Subsidiary ledger
- Aging
- Invoice
- Credit Memorandum
- Account delinquency
- Collection Agency
- Service Disconnect

Overhead 142

Introduction

There are three types of business and organizations that record sales: 1) Those that sell merchandise, for example fuel depots, and village stores. 2) Those that sell services, such as utilities systems, and water and sewer systems. 3) Those who sell articles they manufacture. There are many more service and merchandizing organizations than manufacturing organizations in rural Alaska. Most municipalities and local government entities do not engage in manufacturing. This section will deal with the first two types, merchandizing and service, and will not discuss manufacturing in any detail.

The biggest difference between merchandizing and service industries is maintaining inventory. Inventory is items purchased for resale. A merchandizing organization must maintain inventory. Service organizations have little, none, or insignificant amounts of inventory.

Recording sales, billing and collecting from customers, and accounting for revenues, discounts and credits is identical for the two types. Merchandizing sales are commonly cash transactions, where currency, checks, and credit and debit cards are used at the time of purchase. Service organizations bill customers and extend credit for the services they provide.

Recording a Sale

Overhead 143

Merchandising

A village store records a sale when the customer takes the merchandise to the counter. The clerk rings up the items on the cash register, receives payment for the merchandise, and hands the receipt tape to the customer. This record is called **point of sale**. At the end of the day the sales information is transferred from the register tape to the accounting system. The accounting system does not record each individual transaction, just the totals by item category.

When the clerk records the sales totals, she/he balances this amount with the cash deposit. The two amounts should be identical. The amount of inventory that was sold needs to be deducted from the inventory account. The clerk reduces the inventory account and charges this to a cost of goods sold account. This double entry requirement is difficult to maintain, however it is important to always know the amount of inventory available to sell.

There are computerized accounting programs that merged the **point of sale** record keeping with **inventory control**. The large grocery stores have this type of data entry. They use bar codes and scanners that automatically record the sale of the can of tuna, and simultaneously subtract the can from the tuna inventory. Controls set up in the inventory will alert store management when the tuna inventory reaches the reorder point. There are several affordable versions available. Any organization with continuous and numerous sales of merchandize should investigate the purchase of 'point of sale' software.

Service

Overhead 144

A service organization records a sale with the creation of either a sales receipts (when cash is received) or an invoice (when the customer is billed for the service). A sales receipt is an example of recording sales at a fuel depot. An invoice records the sales of utility or sewer and water services.



Sewer and water systems often charge the same user fee each month. This is a fixed charge. Even though the customer knows how much the fee is and that the fee is due each month, it is important to bill the customer monthly. Most collection difficulties arise when the customer does not receive a monthly bill.

Accounts Receivable

Overhead 145

When the sale (customer billing) is recorded, the clerk tallies all the sales and records to the sales/revenue accounts. The total is recorded in the accounts receivable. **Accounts receivable** is money owed from a customer. When accounts receivable is recorded the individual customer has to have the sale recorded on their customer ledger. This ledger is called a **subsidiary ledger** because it details, by customer, the amount carried in accounts receivable



Accounts receivable subsidiary ledger

Overhead 146

In an accounts receivable subsidiary (customer) ledger all activity of the individual account is maintained: charges, credits, payments and running balance. Each customer has a ledger card, which details the activity in the customer's account.

When all the customer ledgers are added together they total the amount carried in accounts receivable.

Credit memorandums/sales returns

Overhead 147

There are numerous instances where customers are given full or partial credit for items that were billed. In a merchandise situation, the customer returns the item for cash, or for a credit to their account.

In a service organization, credit memorandums resolve complaints, contested services, and customer relations. Whatever the cause the customer might receive a rebate of their charges. This depends in large part to policies and procedures, ordinances and customer agreements.

Sales and payment discounts

Overhead 148

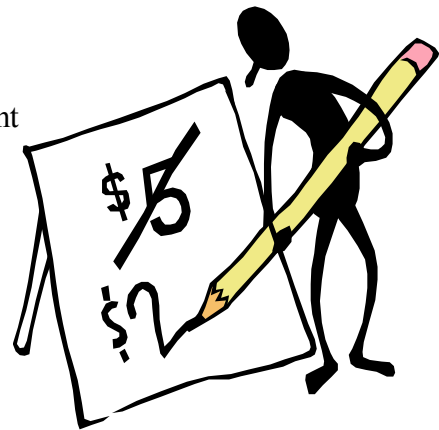
The local department store is advertising ten percent off on any purchase for the next week. The fuel company offers a 2% discount if the payment for fuel delivery is paid within ten days. Both of these situations are examples of discounts, the first is a sales discount, the latter a credit discount. Both are tools the organization has to encourage increased sales and increased payments.

An early payment discount encourages payment for service.

Customer payments

Overhead 149

In a billing cycle, customer payments are received after bills are sent. Ideally, the customer pays the bill upon receipt. Many times, however, customers do not pay timely, they may make a partial payment or they may not pay at all.



Customer statement

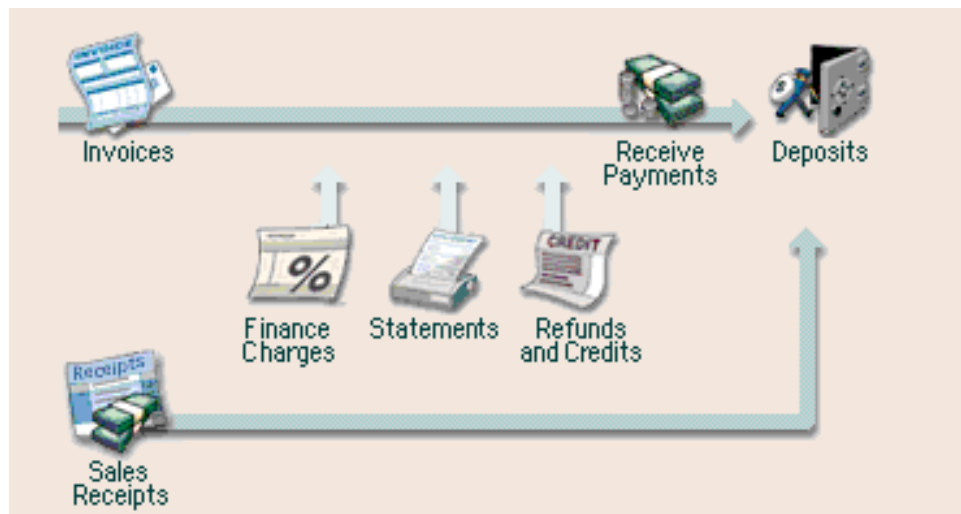
Overhead 150

A customer statement reflects invoices, credits, payments and the balance on the customer's account. Most customer statements reflect the account aging at the bottom of the page. This aging schedule will show the age of the account broken into current, 30 days, 60 days and 90 days or more. The aging schedule at the bottom is a good reminder to the customer about delinquent amounts.

Customer statements do not reflect the details of invoices, which show each item the customer is charged; the statement only reflects the total amount of the invoice.

Sales flowchart
Overhead 151

The chart below (from QuickBooks customer navigator) shows the flow of data from the sale with either the invoice or sales receipt, through refunds, payments and finally depositing the funds to the bank account



Why Do You Need a Collections Policy?
Overhead 152

Utilities are enterprises and as such, need to be self-supporting. They are dependent on customer sales for money to operate and maintain the utility. The utility needs to receive payment for services to be viable. When one or more customers don't pay, this places an unfair burden on other customers and may force a reduction of utility or other services provided by the local government entity.

The collection of service fees is one of the most important—yet difficult utility tasks. Without payment for services, the utility cannot continue to operate. When one customer is allowed to not pay, the word gets out and others may take advantage of the utility.

A collection system is a set of written procedures designed to get all customers who owe the utility money to pay in a timely manner. A collection system has three components:

- Authorization to collect funds
- Written procedures
- Practical strategies

Failure to implement any one of the three will jeopardize collections and thus the financial viability of the utility.

Authorization
Overhead 153

The utility ordinance should contain a special section outlining the policy and philosophy of the utility in handling the collection of fees.

This section of the ordinance should specify:

- Authority to charge for service
- Billing cycle
- Payment date
- Past due date
- Steps to collect the bill
- Authority to practice collections
- Disconnection of service

A summary of these rules should be included in the “Agreement for Service”, signed by each customer.

Collection Strategies
Overhead 154

Practical Strategies No collection system is effective without written procedures. However, the manager must still apply these procedures to customers while considering their personal financial problems. Assuming that the utility has the proper ordinance and written procedures and a manager finds that collections are low, what should be done?

Why Don’t They Pay? The first step is to try to understand why the customer is missing payments. Different customers have various reasons for not paying, but most excuses fall into one of two categories: they don’t have the money or they have a gripe about the service. Customer dissatisfaction must be addressed in a different manner than a customer not paying because they simply lack the resources. Once the reason has been identified, an appropriate collection strategy can be selected.

There are two basic collection strategies: positive and negative. Positive strategies result in a customer voluntarily paying for the service. Negative strategies result in the utility forcing a customer to pay by disconnecting service or by legal action.

Most utilities use both strategies and apply them to the appropriate customer situation. It is always best to try positive strategies first. They are the easiest to implement and the least controversial.

Positive strategies include:

- Meeting the customers' expectation for service
- Voluntary assignment of Permanent Fund Dividend check
- Being clear about the requirement to pay for services
- Providing the customer with a clear understanding of rate information
- Publicly recognizing the customer's contribution to the utility in a bulletin or newsletter
- Offering one month free service when the first 11 months are paid in advance
- Offering a discount for cash payment prior to a certain date
- Conducting a raffle for people who pay on time
- Having a "Community Day" at the water or wastewater plant

Negative strategies include:

- Posting names of past due account holders
- Adding a late-payment penalty
- Disconnecting service
- Turning the billing over to a collection agency
- Pursuing a judgment against a past due customer

Selecting Strategy The strategy that is used to collect utility bills must be matched to the reasons that the customer does not pay. If the customer has no money, then suing him will not be effective. In this case a different strategy such as seasonal billing or Permanent Fund Dividend assignment may work.

In order to implement any of these strategies, they must be authorized in the utility ordinance.

Any strategy that results in collection of fees is a good strategy. There are some downsides to some of the strategies, however. For example, if people pay in advance, they receive a month's worth of service at no cost. If everyone all of a sudden decided to choose this as an option, the result would be the equivalent non-collection and subsequent provision of free service for every household in town for a period of time. No utility is able to afford this.

A Story of One Community

One community had a state constructed piped water and sewer system and a washeteria. They elected not to bill community members for the service. A user left town, shut off all heat and the line to the house froze. The community didn't have funds for major repairs and the line remained broken. This break weakened the entire loop, and soon the loop was malfunctioning. In time more than half the community members had no sewer or water service, and they were not happy. The washeteria showed deferred maintenance problems.

Washers and dryers didn't work for lack of critical spare parts. The door was left open and the building froze. It was vandalized. The building was padlocked. Now the community has no washeteria.

It was fortunate the small community was on the road system. Everyone drove 22 miles (one way) to get water and do laundry. The state was approached to build a new system. It took several years to secure funds for this. All the while members drove 44 miles round trip for necessary services. When funds were available to build a new washeteria and repair the piped system, the agency insisted on a utility ordinance ensuring customer payments and collections for operation of the system.



NOTE: Exercise 1 - Don't be Nasty

Establish a User Fee
Overhead 155

There are different types of agreements, one is used for signing up new customers to the service and the other is for existing services. Each customer must sign a customer agreement before they are connected to the service. This agreement shown below (there is also a sample of a customer agreement in the appendices) will establish what is expected of the customer and what is expected of the system management. The customer agreement establishes the customer fee.

**Residential Utility
Service Agreement**

This Agreement is made between City of Anytown, Water and Sewer Utility as the Utility and John Dough as the Applicant.

The Applicant requests that the home on the property described in Appendix A, be connected to the Utility's water/sewer system.

As part of the request, the Applicant agrees:

1. To abide by the water and sewer ordinances, rules, and policies adopted by the City and Utility.
2. To grant at no cost, a Right-of-Entry (form attached as Appendix B) to the Utility to construct the connection to the Applicants residence.
3. If necessary, grant at no cost, an Easement (form attached as Appendix C) to the Utility for construction of water/sewer main lines across the Applicants property.
4. To pay the Utility, a monthly service fee for water/sewer at the rate established by the Utility for residential customers.
5. To pay any deposits required by the Utility prior to connection of service.
6. That delinquent bills (more than 30 days past due) are subject to collection actions. These actions can include, but are not limited to, interest charges, late payment fees, deposit forfeiture, suits in small claims court, and disconnection of service.
7. Maintain the plumbing on the Applicant's property and within the residence, including all plumbing, piping, fixtures, and other appurtenances intended to carry water, sewage, waste water and drainage in accordance with the Uniform Plumbing Code.
8. To use the heat tape and maintain an adequate insulation for the system to prevent freezing during the winter. The Applicant agrees that they will not continuously run water during cold weather.

Establish a Collection Policy

Overhead 156

Collection policies are established in the utility ordinance. A portion of an ordinance is shown below; a complete sample ordinance is included in the appendices.

ALASKA CITY	
CODE OF ORDINANCES	
<u>WATER & SEWER SYSTEM</u>	
<u>Sections:</u>	
I.	Purpose.
2.	Prohibited acts.
3.	Connection to city water and sewer system.
4.	Establishing standards.
5.	Standards for plumbing.
6.	Permits for construction of individual water and sewer systems.
7.	Maintenance required.
8.	Authorized inspection.
9.	City Utility Commission.
10.	Utility rates.
II.	Termination of service.
12.	Penalties.
 <u>Section I. Purpose.</u> The purpose of this chapter is to regulate the operation and utilization of the community water and sewer and waste disposal facilities; to provide for the collection of user charges; and to protect the public health.	
 <u>Section 2. Prohibited acts.</u> (A) It shall be unlawful for any person or company to construct, maintain, or utilize a source of water supply in the new town site other than the City water system for drinking and sanitary purposes at any building located within 200 feet of the City water system.	
B. It shall be unlawful for any person to construct, alter, or extend an individual water system except by permission of the City.	
C. It shall be unlawful for any person to construct, maintain, or operate an unconnected water system within the city limits without the written permission of the City Council.	
D. It shall be unlawful for any person to dispose of sewage, liquid waste, or human excrement within the city limits by any method from any building within 100 feet of the utility system other than through the utilization of the City sewage disposal system.	
E. It shall be unlawful for any person to operate or maintain an individual sewage disposal system, unless it is constructed and maintained in a fashion that does not contaminate any source of drinking, public, or domestic water supply. Any individual sewage disposal system must be approved by the Alaskan City.	
F. It shall be unlawful for any person to construct, alter, or extend an individual sewage disposal system except by permission of the City.	
G. It shall be unlawful for any person to discharge sewage, garbage, or other domestic waste, other than wash water, on ground surface within the city limits except at specified locations.	
H. It shall be unlawful for any person using the City water and sewage system to fail to protect their individual systems from the cold weather. All users shall protect their individual systems from freezing by inspecting and repairing the insulation of the water and sewer pipes. Heat tape or draining the interior plumbing is acceptable methods when the residence is not occupied.	
Alaskan City, Code of Ordinances	

Apply rules to all

In small communities collection of delinquent accounts can be very difficult because many customers are related to utility personnel. It can be difficult to send collection letters to your aunt or brother. However, it is important that all the customers, no matter the relationship or the position in the community be treated equally.

Provide Excellent Service

Customers expect good service, and they expect to pay for good service. If you provide good or excellent service you will have less complaints and better collections.

Bill All Accounts Monthly

One of the easiest ways to reduce delinquent accounts is to bill customers regularly. If your organization sends out customer statements each month on the same date, customers will be reminded that they owe their bill. If you are irregular or unreliable in billing for services, your customer will be irregular and unreliable in paying.

City of Anytown Sewer and Water Utility P.O. Box 100 Anytown, AK 99111	INVOICE
Name of Customer: _____	
Service Address: _____	
For the service provided above you owe:	\$ _____
Previous balance:	\$ _____
Total Due:	\$ _____
Please submit payment at the City office	
City of _____	
Representative _____	Date _____
Title: _____	

Notify All Delinquencies By Letter

Follow the procedure for non-payment of bills. A bill is past due if it is not paid timely. Four weeks after the bill is sent, if payment is not received the entity sends the delinquent customer a written notice of the decision to disconnect service. The notice includes the amount owed and the expected date of disconnection. This information is located in the ordinance and in the customer agreements.

<p style="text-align: center;">City Utility Commission</p> <p style="text-align: center;">Alaskan City</p> <p style="text-align: center;">NOTICE OF DECISION TO DISCONNECT SERVICE</p> <p>Customer's name _____ Address _____</p> <p>We the members of the City Utility Commission hereby find that you were provided a water and sewer service bill dated _____ with an amount of \$_____ and that you have refused to pay such service bill by not submitting payment in full.</p> <p>This action constitutes a violation of Chapter _____, Section 10(E) of the Code of Ordinances of the Alaskan City.</p> <p>Because you have continued to refuse to pay in full the amount of your water and sewer service bill, the Commission hereby gives notice that your water and sewer service will be discontinued on _____.</p> <p>You may appeal the decision of this Commission to the City Council at its next regularly scheduled meeting dated_____. Date _____</p> <p>ATTEST: City Clerk _____</p>
--

Six weeks after delivery of the bill, a written final notice to the customer is provided and failing payment, the service is disconnected. Prior to disconnection, the customer may appeal for delay of disconnection in order to correct the violation or to make arrangements to pay the outstanding debt in installments.

Enforce service disconnect

Enforce the disconnect policy equitably with all customers. Customers with past due accounts must be disconnected with the provisions of the utility ordinance.

Maintain Good Accounting Records

Customers should receive timely, accurate statements on their accounts. When customers call regarding their accounts, the person taking the call must have accurate information on hand (whether manual or computerized) that shows all the activity in that specific account. Accurate records are source documents for customer payments and receipts.

NOTE: Exercise 2 - Disney Deadbeats

Notes

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Collections Worksheet

1. The biggest difference between merchandising and service industries is maintaining an inventory.
☐ T ☐ F
2. A point of sale occurs when you purchase merchandise, pay for it and receive a sales receipt.
☐ T ☐ F
3. Money owed from a customer is called accounts receivable. ☐ T ☐ F
4. A customer statement reflects invoices, credits, payments and the balance on the customer's account.
☐ T ☐ F
5. Utility Enterprises are dependent on customer sales for money to operate and maintain the utility.
☐ T ☐ F
6. Each _____ must sign a _____ agreement before they are connected to the service.
7. Collection policies are established in the utility _____.
8. Billing customers _____ is one of the easiest ways to keep track of delinquent accounts.
9. Accurate _____ are **source documents** for customer payments and receipts.
10. If a customer account is delinquent for over a year, the best course of action is to forgive their account and let them start out with a clean slate, as long as they promise to pay.
☐ T ☐ F
11. If a delinquent account is owed by a council member, the best course of action is to ignore it until they are out of office. ☐ T ☐ F

Collections Worksheet Answers

1. The biggest difference between merchandising and service industries is maintaining an inventory.
☒ T ☐ F
2. A point of sale occurs when you purchase merchandise, pay for it and receive a sales receipt.
☒ T ☐ F
3. Money owed from a customer is called accounts receivable. ☒ T ☐ F
4. A customer statement reflects invoices, credits, payments and the balance on the customer's account.
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5. Utility Enterprises are dependent on customer sales for money to operate and maintain the utility.
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8. Billing customers monthly is one of the easiest ways to keep track of delinquent accounts.
9. Accurate records are **source documents** for customer payments and receipts.
10. If a customer account is delinquent for over a year, the best course of action is to forgive their account and let them start out with a clean slate, as long as they promise to pay.
☐ T ☒ F
11. If a delinquent account is owed by a council member, the best course of action is to ignore it until they are out of office. ☐ T ☒ F

Chapter 5

COLLECTIONS

Exercise 1

DON'T BE NASTY

Purpose

Collective effort in writing a collection letter. The tone of the letter is to be friendly, yet encourage the recipient to pay.

Format

Very loose collective effort in letter writing.

Resources needed

Each group will need a sheet of paper.

Time Requirement 0:20

Background

Collection letters are very difficult to construct. A collection letter needs to be firm, yet friendly, politely requesting the delinquent party to bring their account current.

Activity

The group will be divided into four groups of three or four participants. Each group will write a different (friendly, formal, harsh) collection letter to a delinquent account. When the letters are written have the groups read aloud to the entire class. After each letter is read, have the class discuss the letters to see changes they might be able to apply. (Instructors, photocopy the letters for participants to take home with them.)

The ones attached are form letters from QuickBooks, although they are good examples, they are not the only correct format.

*Anywhere City
PO Box 12345
Anywhere, AK 99777*

August 31, 2002

John Dough
1222 Main Street
Anywhere City, AK 99991

Dear John,

Just a friendly reminder that you have 6 overdue invoice(s), with an overdue balance of \$510.00. If you have any questions about the amount you owe, please give us a call and we'll be happy to discuss it. If you've already sent your payment, please disregard this reminder.

We appreciate your continuing business, and we look forward to hearing from you shortly.

Sincerely,

Sandy Kennedy
Very Friendly Clerk
Anywhere City

Anywhere City
PO Box 12345
Anywhere, AK 99777

August 31, 2002

John Dough
1222 Main Street
Anywhere City, AK 99991

Dear Mr. Dough,

Although we have contacted you about the outstanding balance on your account, we still have not heard from you. You have an outstanding balance of \$510.00. The following invoices are overdue:

Inv. No.	Inv. Date	Due Date	Inv. Amount	Balance
19	1/01/2002	1/01/2002	\$85.00	\$85.00
20	2/01/2002	2/01/2002	\$85.00	\$85.00
21	3/01/2002	3/01/2002	\$85.00	\$85.00
22	4/01/2002	4/01/2002	\$85.00	\$85.00
23	5/01/2002	5/01/2002	\$85.00	\$85.00
24	6/01/2002	6/01/2002	\$85.00	\$85.00

If you have already sent payment in full, we ask that you call and let us know. Otherwise, please call me to discuss what you plan to do to settle your account.

Thank you for your prompt attention to this matter.

Sincerely,

Sandy Kennedy
Very Formal Clerk
Anywhere City

***Anywhere City
PO Box 12345
Anywhere, AK 99777***

August 31, 2002

John Dough
1222 Main Street
Anywhere City, AK 99991

Dear Mr. Dough,

The following invoices are long overdue:

Inv. No.	Inv. Date	Due Date	Inv. Amount	Balance
19	1/01/2002	1/01/2002	\$85.00	\$85.00
20	2/01/2002	2/01/2002	\$85.00	\$85.00
21	3/01/2002	3/01/2002	\$85.00	\$85.00
22	4/01/2002	4/01/2002	\$85.00	\$85.00
23	5/01/2002	5/01/2002	\$85.00	\$85.00
24	6/01/2002	6/01/2002	\$85.00	\$85.00

Please contact us immediately regarding this situation.

Unless we hear from you in seven days, we will turn your account over to our collection agency. Obviously, this would have a detrimental effect on your credit rating.

We must hear from you soon or be forced to take action. Please send your payment in full or call us to discuss the matter.

Sincerely,

Sandy Kennedy
Very Mean Clerk
Anywhere City

Chapter 5

COLLECTIONS

Exercise 2

DISNEY DEADBEATS

Purpose

Aging accounts receivable to formulate collection efforts

Format

Group works together to establish collection program.

Resources needed

Each group will need an aged accounts receivable handout. Actions need to be listed on flipchart.

Time requirement

0:20

Background

Aging accounts receivable is the first step in establishing collection efforts. The addition of the cartoon characters will encourage participants to be more upbeat with the “deadbeats” without offending anyone. The first exercise is an exercise in aging accounts and tying them to types of notifications and actions in the process of collections. The second exercise is aimed at water/sewer accounts and the process of collections leading to disconnection.

Activity

The residents of Looneytoonville are delinquent in payments to the local cable TV service. Even though payment for services is only \$50 per month (we’ve made the math easy for you), you can tell by the accompanying schedule that any number have not been paying their bills. Action is needed.

It’s time to collect on these Disney deadbeats. If their account is current or 30 days, they need no action. If their account is more than 60 days, they need a phone call. Ninety day accounts need a 10 day notice letter. Accounts over 120 days need to be disconnected. Who will we schedule for the disconnection, a nasty gram, or a phone call? You be the judge.

Exercise 2

Disney Deadbeats							
Customer	Balance	Current	30 Days	60 Days	90 Days	120 Days	Action
Aladdin and Jasmine	\$ 250.00						
Archie Andrews	\$ 250.00						
Ariel	\$ 100.00						
Atila the Hun	\$ 50.00						
Barney and Betty Ruble	\$ (50.00)						
Batman	\$ 50.00						
Beauty and the Beast	\$ 150.00						
Beetle Bailey	\$ (50.00)						
Big Bad Wolf	\$ (50.00)						
Bugs Bunny	\$ 150.00						
Casper	\$ 250.00						
Christopher Robin	\$ 300.00						
Cinderella	\$ 300.00						
Daffy Duck	\$ 200.00						
Dagwood & Blondie Bumstead	\$ 150.00						
Daisy Duck	\$ 300.00						
Davey Crockett	\$ 150.00						
Donald Duck	\$ 400.00						
Fairy God Mother	\$ 150.00						
Fat Albert	\$ 50.00						
Fred and Wilma Flintstone	\$ 150.00						
Giant	\$ (50.00)						
Hewey, Dewey & Louie Duck	\$ 200.00						
Jack and Jill	\$ 50.00						
Lilo and Stitch	\$ 50.00						
Lois Lane	\$ 150.00						
Mickey Mouse	\$ 50.00						
Minnie Mouse	\$ 150.00						
Mother Goose	\$ 250.00						
Pepe Lepew	\$ (50.00)						
Piglet	\$ 100.00						
Pluto	\$ 200.00						
Porky Pig	\$ 100.00						
Prince Charming	\$ 100.00						
Red Riding Hood	\$ 300.00						
Richie Rich	\$ 150.00						
Roadrunner	\$ 300.00						
Scooby Doo	\$ 150.00						
Sleeping Beauty	\$ 250.00						
Spiderman	\$ 100.00						
Sponge Bob Squarepants	\$ 50.00						
Superman	\$ 150.00						
Tazmania Devil	\$ 50.00						
Tigger	\$ (50.00)						
Tweety Bird	\$ 50.00						
Veronica Lodge	\$ 150.00						
Winnie the Pooh	\$ 100.00						
Witch Hilda	\$ 50.00						

Exercise 2 Answer

Disney Deadbeats							
Customer	Balance	Current	30 Days	60 Days	90 Days	120 Days	Action
Aladdin and Jasmine	\$ 250.00	50.00	50.00	50.00	50.00	50.00	Disconnect
Archie Andrews	\$ 250.00	50.00	50.00	50.00	50.00	50.00	Disconnect
Ariel	\$ 100.00	50.00	50.00	-	-	-	No Action
Atilla the Hun	\$ 50.00	50.00	-	-	-	-	No Action
Barney and Betty Ruble	\$ (50.00)	-	-	-	-	-	No Action
Batman	\$ 50.00	50.00	-	-	-	-	No Action
Beauty and the Beast	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Beetle Bailey	\$ (50.00)	-	-	-	-	-	No Action
Big Bad Wolf	\$ (50.00)	-	-	-	-	-	No Action
Bugs Bunny	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Casper	\$ 250.00	50.00	50.00	50.00	50.00	50.00	Disconnect
Christopher Robin	\$ 300.00	50.00	50.00	50.00	50.00	100.00	Disconnect
Cinderella	\$ 300.00	50.00	50.00	50.00	50.00	100.00	Disconnect
Daffy Duck	\$ 200.00	50.00	50.00	50.00	50.00	-	Letter
Dagwood & Blondie Bumstead	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Daisy Duck	\$ 300.00	50.00	50.00	50.00	50.00	100.00	Disconnect
Davey Crockett	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Donald Duck	\$ 400.00	50.00	50.00	50.00	50.00	200.00	Disconnect
Fairy God Mother	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Fat Albert	\$ 50.00	50.00	-	-	-	-	No Action
Fred and Wilma Flintstone	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Giant	\$ (50.00)	-	-	-	-	-	No Action
Hewey, Dewey & Louie Duck	\$ 200.00	50.00	50.00	50.00	50.00	-	Letter
Jack and Jill	\$ 50.00	50.00	-	-	-	-	No Action
Lilo and Stitch	\$ 50.00	50.00	-	-	-	-	No Action
Lois Lane	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Mickey Mouse	\$ 50.00	50.00	-	-	-	-	No Action
Minnie Mouse	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Mother Goose	\$ 250.00	50.00	50.00	50.00	50.00	50.00	Disconnect
Pepe Lepew	\$ (50.00)	-	-	-	-	-	No Action
Piglet	\$ 100.00	50.00	50.00	-	-	-	No Action
Pluto	\$ 200.00	50.00	50.00	50.00	50.00	-	Letter
Porky Pig	\$ 100.00	50.00	50.00	-	-	-	No Action
Prince Charming	\$ 100.00	50.00	50.00	-	-	-	No Action
Red Riding Hood	\$ 300.00	50.00	50.00	50.00	50.00	100.00	Disconnect
Richie Rich	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Roadrunner	\$ 300.00	50.00	50.00	50.00	50.00	100.00	Disconnect
Scooby Doo	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Sleeping Beauty	\$ 250.00	50.00	50.00	50.00	50.00	50.00	Disconnect
Spiderman	\$ 100.00	50.00	50.00	-	-	-	No Action
Sponge Bob Squarepants	\$ 50.00	50.00	-	-	-	-	No Action
Superman	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Tazmania Devil	\$ 50.00	50.00	-	-	-	-	No Action
Tigger	\$ (50.00)	-	-	-	-	-	No Action
Tweety Bird	\$ 50.00	50.00	-	-	-	-	No Action
Veronica Lodge	\$ 150.00	50.00	50.00	50.00	-	-	Phone Call
Winnie the Pooh	\$ 100.00	50.00	50.00	-	-	-	No Action
Witch Hilda	\$ 50.00	50.00	-	-	-	-	No Action

Expanded exercise: The same residents are delinquent to the sewer/water utility. Payments are \$100 per month. If the account is current or within 30 days the need no action. If the account is beyond the 30 days, they need a notice to disconnect. If the account is at 6 weeks they need to be disconnected. Water/Sewer

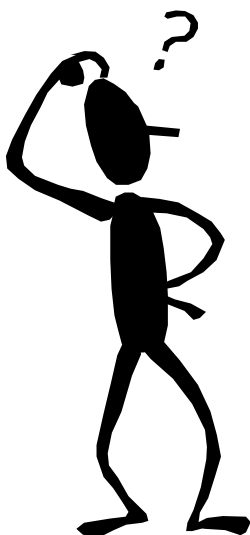
NOTE: If you choose to do this exercise use the handout (blank) from Exercise 2

Water/Sewer

Continuation exercise should the instructor wish. Looneytoonville has 48 customers. We've just disconnected eleven and given notice of intent to disconnect to an additional sixteen customers. Out of 48 customers we have twenty-one (less than half) who are current. We need to take in \$4,800 a month just to break even. How much did we need to supplement the budget with from other sources as a result of customers whose accounts are in the 30 day column?

How much have we had to ask the council for to supplement the budget for customers who have been disconnected (60 day column)?

NOTE: The Answer for this Exercise is on page 232.



Expanded Exercise 2 Answer

Disney Deadbeats							
Customer	Balance	Current	30 Days	60 Days	90 Days	120 Days	Action
Aladdin and Jasmine	\$ 300.00	100	100	100			Disconnect
Archie Andrews	\$ 300.00	100	100	100			Disconnect
Ariel	\$ 100.00	100					Current
Atila the Hun	\$ 100.00	100					Current
Barney and Betty Ruble	\$ (100.00)						Credit
Batman	\$ 100.00	100					Current
Beauty and the Beast	\$ 200.00	100	100				First Notice
Beetle Bailey	\$ (200.00)						Credit
Big Bad Wolf	\$ (100.00)						Credit
Bugs Bunny	\$ 200.00	100	100				First Notice
Casper	\$ 300.00	100	100	100			Disconnect
Christopher Robin	\$ 300.00	100	100	100			Disconnect
Cinderella	\$ 300.00	100	100	100			Disconnect
Daffy Duck	\$ 200.00	100	100				First Notice
Dagwood & Blondie Bumstead	\$ 200.00	100	100				First Notice
Daisy Duck	\$ 300.00	100	100	100			Disconnect
Davey Crockett	\$ 200.00	100	100				First Notice
Donald Duck	\$ 400.00	100	100	100	100		Disconnect
Fairy God Mother	\$ 200.00	100	100				First Notice
Fat Albert	\$ 100.00	100					Current
Fred and Wilma Flintstone	\$ 200.00	100	100				First Notice
Giant	\$ (100.00)						Credit
Hewey, Dewey & Louie Duck	\$ 200.00	100	100				First Notice
Jack and Jill	\$ 100.00	100					Current
Lilo and Stitch	\$ 100.00	100					Current
Lois Lane	\$ 200.00	100	100				First Notice
Mickey Mouse	\$ 100.00	100					Current
Minnie Mouse	\$ 200.00	100	100				First Notice
Mother Goose	\$ 300.00	100	100	100			Disconnect
Pepe Lepew	\$ (100.00)						Credit
Piglet	\$ 100.00	100					Current
Pluto	\$ 200.00	100	100				First Notice
Porky Pig	\$ 100.00	100					Current
Prince Charming	\$ 100.00	100					First Notice
Red Riding Hood	\$ 300.00	100	100	100			Disconnect
Richie Rich	\$ 200.00	100	100				First Notice
Roadrunner	\$ 300.00	100	100	100			Disconnect
Scooby Doo	\$ 200.00	100	100				First Notice
Sleeping Beauty	\$ 300.00	100	100	100			Disconnect
Spiderman	\$ 100.00	100					Current
Sponge Bob Squarepants	\$ 100.00	100					Current
Superman	\$ 200.00	100	100				First Notice
Tazmania Devil	\$ 100.00	100					Current
Tigger	\$ (100.00)						Credit
Tweety Bird	\$ 100.00	100					Current
Veronica Lodge	\$ 200.00	100	100				First Notice
Winnie the Pooh	\$ 100.00	100					Current
Witch Hilda	\$ 100.00	100					Current

Continuation Exercise Answer

Water/Sewer

Continuation exercise should the instructor wish. Looneytoonville has 48 customers. We've just disconnected eleven and given notice of intent to disconnect to an additional sixteen customers. Out of 48 customers we have twenty-one (less than half) who are current. We need to take in \$4,800 a month just to break even. How much did we need to supplement the budget with from other sources as a result of customers whose accounts are in the 30 day column? Twenty six customers have not paid. Twenty six customers times \$100 per month equals **\$2,600** that we've had to ask the council to supplement the budget to keep operations and maintenance going.

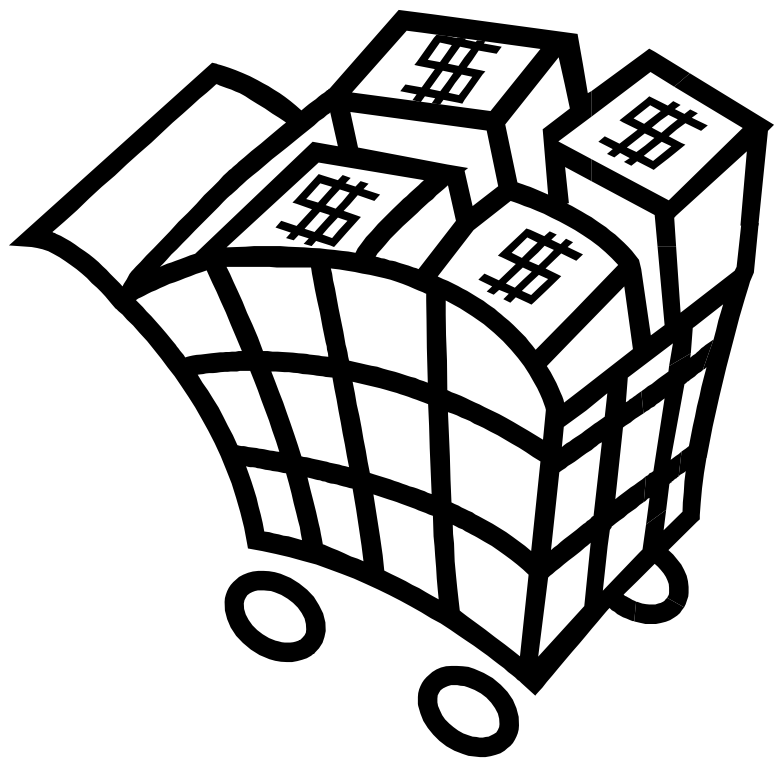
How much have we had to ask the council for to supplement the budget for customers who have been disconnected (60 day column)? Eleven customers times \$100 per month equals **\$1,100** for those we've had to disconnect.

To date how much have we had to ask the council for to supplement operations? **\$2,600 plus \$1,100 equals \$3,700.**

Can we continue to operate at this rate? What options would you address to the council?

Chapter 6

Financial Reports



Financial Management for Utility Managers
Department of Community and Economic Development

Financial Reports

Instructor's Notes

Welcome back and review

This chapter presentation does not require special group seating or any preparatory instruction. This chapter does not build off the previous chapter and requires no review to set up.

Chapter 6 – Financial Reports

The chapter begins with explanations of the qualities and characteristics of financial reports. It then proceeds into the format, structure and meaning of the common financial reports

Exercises

There are five exercises for this chapter

Exercise #1: applies the characteristics of financial statements to buying a car. This exercise provides understanding of the financial statement characteristics by using an analogy of a vehicle purchase, and the qualities looked for in a purchase.

Exercise #2: this exercise presents a balance sheet and statement of revenue and expenditures for participants to fill in the missing information.

Exercise #3: participants must assemble the balance sheet and statement of revenue and expenditures from torn fragments.

Exercise #4: participants bring in local financial statements for analysis and comment.

Exercise #5: participants create ten questions and answers from statement of revenues and expenditures and balance sheet provided.

Worksheet

Participants complete worksheet at the completion of the lesson. Satisfactory understanding of the material is demonstrated with a positive score of 13 or more correct (three wrong).

Wrap-up

Participants with scores below 13 on the worksheet are asked to review the chapter.

Exercise Notes

Exercise #1 needs to be completed close to the beginning of the presentation. It may assist understanding of the qualitative characteristics if it is done before the characteristics are presented. The other exercises may be presented at any time, more appropriately close to the end of the session.

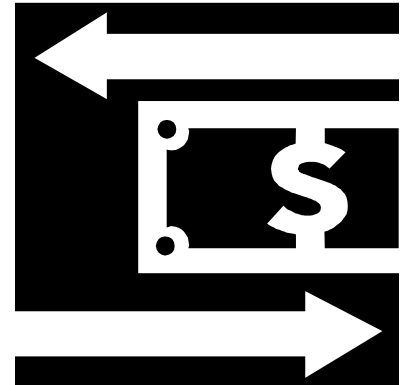
Financial Reports

Objectives

- Identify different financial statements
- Understand the principles that underlie statements
- Apply financial ratios to number and define meaning of various ratios

Key Terms

- GAAP
- Audited Financial Statements
- Certified Financial Statements
- Single Audit
- Balance Sheet
- Income Statement
- Cash Flow Report



Introduction

Utility managers and councils need accurate and timely financial information so they can make good decisions. The council cannot make good decisions if they don't know how much money is available. Utility managers cannot plan for maintenance or repairs if they don't have accurate information on reserves, cash flows and current revenues.

Everyone recognizes the importance of financial reports, daily, weekly, monthly, quarterly, and yearly. Additionally, it is important to remember that financial information, like fish, has a very short shelf life. Information prepared today about last year's events has little value. Financial information to be most valuable needs to be timely.

There are numerous different financial statements with differing detail. The format and amount of detail presented in any statement is up to the needs of the user.

The Department of Community and Economic Development has developed a number of statement formats available in their *Model Financial Recordkeeping System*. These statements follow the format of the budget and financial statement handbooks.

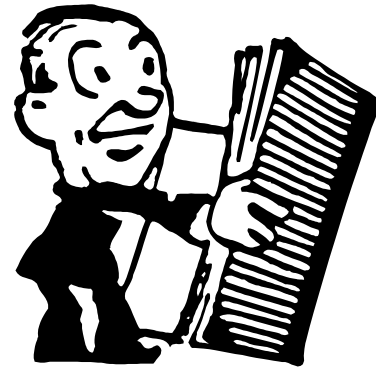
Whatever the specific report, all financial reports are a combination of titles and numbers that present different aspects of an organization's financial condition.

Characteristics of Financial Reports

Overhead 157

Before we begin to study the structure of different statements it is important to present some rules, or characteristics, that make financial statements a useful tool to councils, managers and regulators.

A financial report, whether it is a budget, a computer prepared profit and loss statement, or a payroll report, should have the following characteristics.



- It should be useful. If it isn't useful, it's a waste of your time.
- It should be relevant. The information must be appropriate for you.
- It must be reliable. The information must be free of errors and bias.
- It must be verifiable. You should be able to track source documents in support of the information.
- It must be neutral. The information should not favor one group over another.
- It must be understandable. It must be presented in a way that is clear and understandable to the reader.
- It must be timely. Financial information should be presented quickly enough to be useful.
- It must be comparable. The information must compare to other organizations and to other accounting periods.
- It must be complete. All relevant information must be presented.

Underlying assumptions
Overhead 158

Readers of financial reports make assumptions about the financial statements of an organization. These assumptions (things we can take for granted) about the economy and business activities, make the accounting information meaningful:

- Separate entity assumption – This assumes that every organization is separate from every other organization, unless the financial information tells you otherwise. The city is separate from the tribal council, and their finances are separate.
- Stable monetary unit assumption – Assume that money will be worth the same amount tomorrow as it is today. Inflation affects us all but we disregard that in financial statements, and do not restate prior amounts for inflation's effect.
- Going concern assumption - Assume that the business will still be operating tomorrow, that the organization is viable.
- Objectivity assumption – The assumption that the financial statements are fair and unbiased to all parties.
- Period of income assumption – An assumption that you have to break up financial information into periods. This period may be a week, month, quarter or year (fiscal year). Whatever this period may be, income and expenditures begin at zero for the period.

Generally Accepted Accounting Principles (GAAP)
Overhead 159

The organization that regulates accounting, the Financial Accounting Standards Board, has established generally accepted accounting principles (GAAP). These general principles are the rules we use to record transactions that make up the financial information. The following rules pertain to the presentation of financial information in financial statements.

- ♦ Cost basis – Assets are recorded at their cost value, not the fair market value. For example, you're buying a truck for pumping tanks. The truck costs \$23,000, but the dealer gave you a discount of \$3,000 bringing the price down to \$20,000. Do you put the truck on your books for \$20,000 or \$23,000 (the price of the truck before the discount)? It might be great to put the truck on the books for the full \$23,000 ... but you can't. You report the truck at \$20,000, the actual cost.

- ♦ Consistency principle – In accounting there are a number of choices you can make: cash basis versus accrual basis; accelerated depreciation versus straight line depreciation; first-in-first-out (FIFO) inventory valuation versus last-in-first-out (LIFO) inventory. Any of these choices are proper accounting. However, once you have made a choice, for example using cash basis accounting, then you need to be consistent in your reporting and use the same method each time. This is consistency.
- ♦ Realization principle – Record revenue when you realize the revenue. The State of Alaska provides capital matching grants each year. The 2002 grant may only be received and spent in 2004. The grant is recognized as revenue when received or realized.
- ♦ Matching principle – You should record revenue when you record the matching expense. For example, grant revenue is recorded when the expenditures related to that grant are incurred.
- ♦ Accrual principle – There are expenses, such as accumulating vacation time, that become quite significant and these amounts should be accrued for your financial statement if your statements are not on the cash basis.
- ♦ Full disclosure – Full disclosure means that all facets of a financial transaction need to be disclosed to the reader in notes. If the organization has any legal contingencies, or upcoming changes that would affect the information it must be fully disclosed.
- ♦ Materiality – Means that the financial statements are not expected to be accurate to the penny. Numbers reflected in financial statements must be materially correct (within 5%) of the amount the organization reports.
- ♦ Conservatism - The principle that transactions will be accounted for in a conservative manner, that income will be recorded only when realized but expenses will be accrued as soon as they are known.
- ♦ Industry practice – The principle that states if you belong to a specific industry, and that industry has special financial reporting conditions, you need to follow the industry practice. For example, construction reports profit on both completed and incomplete contracts. Consequently, if your industry is construction, you must report income in this manner.

Certified financial statements

Overhead 161

A certified financial statement is a certified statement of revenues and expenditures for a given period accompanied by a resolution of the governing body that the information is true and correct. Second class cities may submit a certified financial statement instead of an audit for state revenue sharing purposes if the federal revenue is under \$300,000.00.

The city's treasurer is primarily responsible for maintaining the city's financial records and preparing the certified financial statement. This can be done easily if monthly financial statements have been prepared. If however, the city has not maintained their monthly statements, then the entire year's information will need to be computed. All revenue and expenditures for the year needs to be classified by budget category.

Every year the Department of Community and Economic Development (DCED) publishes the *Fiscal Year City Financial Statement* manual, which provides forms and instructions that take the user step-by-step through the process for completing a certified financial statement.

Audited financial statement

Overhead 162

An audit is an independent examination (meaning the auditor has no direct interest in the outcome of the audit), of the local government's records, financial transactions and accounts, and the compliance with rules and laws that apply to some funding sources. It is the best way to show that public funds have been handled in an appropriate way.

An audited financial statement is one prepared by a Certified Public Accountant who has no personal interest either directly or indirectly in the financial affairs of the entity. In addition to these legal requirements, Government Auditing

Standards (the Yellow Book), require that the CPA have specific training in governmental accounting and auditing standards.

Audit opinion
Overhead 163

An audit provides an analysis of the financial status and methods of an organization. The results of the audit are a set of reports on what has been audited and the auditor's opinion about the organization's records. Audits also include financial statements and a management letter if requested. If the audit is either a state or federally mandated single or program audit, reports on compliance with the rules and regulations of that funding program will be included. The auditor's opinion can be one of three types of opinions:

1. An unqualified (clean) opinion which states that the auditor believes the information to be materially correct as presented;
2. A qualified opinion, which states that except for a non-GAAP item that the information is materially correct as presented.
3. A disclaimed opinion, which states that the auditor cannot give an opinion on the presentation because of lack of information, or departure from GAAP.

Single audit or program audit
Overhead 164

State and federal law require that an organization have a single audit if it receives \$300,000.00 in federal or state money. This requirement should be spelled out in the agreement or contract awarding the money. A single audit is an audit of the entire organization and all programs. A program audit is an audit of just one grant, or program, for which funds are received. Both the single and program audit provide financial reports and statements required in the audit plus reports on internal controls and compliance with grant agreements.

The single audit must comply with standards set out in the Single Audit Act of 1984, and amended in 1996. If the community gets an audit that complies with the Act, it is not required to then get a second audit under state statute. The single audit standards satisfy the state audit requirements.

NOTE: Exercise 1 – So You're Thinking of Buying a Car

Monthly Financial Reports

Overhead 165

These reports are prepared either manually or on the computer. Reports reflect the monthly and the year to date revenues and expenditures compared to the amounts budgeted.

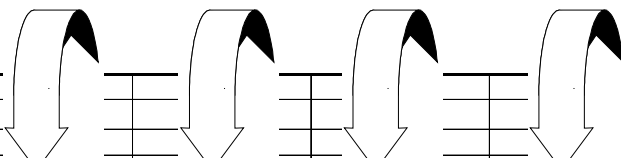
City of Anytown Monthly Financial Statement Statement of Revenues

General Fund

Month of April, 2002

Revenue Categories	FY 02 Budget	Monthly Revenue	YTD Revenue	Expected Revenue
Municipal Sales Tax	4,000.00	450.00	3,360.00	640.00
Cable T.V. Payments	47,000.00	1,500.00	25,000.00	22,000.00
Building Rent	18,263.00	1,500.00	15,000.00	3,263.00
Photocopies	200.00	20.00	180.00	20.00
Recreation Sales	52,000.00	4,200.00	43,500.00	8,500.00
Interest Earnings	300.00	25.00	225.00	75.00
Fines/Penalties	200.00	0.00	200.00	0.00
City Business Licenses	75.00	0.00	75.00	0.00
State Revenue Sharing	32,924.00	0.00	32,924.00	0.00
Municipal Assistance	24,470.00	0.00	24,470.00	0.00
Total General Fund Revenues	179,432.00	7,695.00	144,934.00	34,498.00

The Monthly Financial Report reflects the budget and shows the **budget** as well as the **monthly revenues and expenditures**, the **year to date revenues and expenditures** and the **balance** to the end of the fiscal year.



Expenditure Categories	FY 02 Budget	Monthly Expenditures	YTD Expenditures	Balance
GENERAL FUND				
Month of <u>April</u> , 2002				
City Council				
Stipends	12,600.00	1,050.00	10,500.00	2,100.00
Airfare	5,000.00	0.00	5,000.00	0.00
Total City Council	17,600.00	1,050.00	15,500.00	2,100.00
Administration				
Salaries	29,227.50	2,435.00	24,500.00	4,727.50
Payroll Taxes	15,772.00	495.00	4,909.00	10,863.00
Telephone	2,500.00	210.00	2,100.00	400.00
Electricity	5,000.00	420.00	4,200.00	800.00
Fuel Oil	10,000.00	840.00	8,000.00	2,000.00
Repairs/Maintenance (Buildings)	1,500.00	350.00	1,260.00	240.00
Supplies: Office/Clerical	500.00	0.00	350.00	150.00
Supplies: Postage	500.00	45.00	420.00	80.00
Supplies: Copier Machine	500.00	0.00	500.00	0.00
Equipment	1,000.00	650.00	650.00	350.00
Vehicle/Equipment Maintenance	1,500.00	750.00	800.00	700.00
Interest/Late Charges	1,000.00	0.00	300.00	700.00
Insurance & Bonding	25,000.00	0.00	22,500.00	2,500.00
Contractual Services	5,000.00	0.00	5,000.00	0.00
Membership Dues/Fees & Subscrip.	650.00	0.00	450.00	200.00
Bank Charges	180.00	10.00	155.00	25.00
Total Administration	99,829.50	6,205.00	76,094.00	23,735.50
Parks & Recreation				
Salaries	30,966.00	2,580.00	26,012.00	4,954.00
Payroll Taxes	5,034.00	439.00	4,229.00	805.00
Supplies, Other	5,000.00	500.00	4,200.00	800.00
Vehicle/Equipment Maintenance	1,500.00	250.00	1,260.00	240.00
Total Parks & Recreation	42,500.00	3,769.00	35,701.00	6,799.00

The council should also receive reports that reflect how much cash is in each of the bank accounts, how much is owed by customers, and if there are any liabilities owed by the city. A financial report that contains all the above information is the **balance sheet**.

City of Anytown Monthly Financial Statement Checking Account and Summary Month of May, 2002			
GENERAL FUND		Checking	
A.	07-01-2001 Balance	A.	\$ 4,596.00
B.	1) Previous Month's Ending Balance (4/30/02)	B. (1)	\$ 11,041.00
	2) Plus Total Revenue this month	B. (2)	\$ 1,290.00
	3) Less Total Expenditures this month	B. (3)	\$ 11,447.00
	4) Ending Cash Balance this month (5/31/02) (B1 +B2 - B3) = B4	B. (4)	\$ 884.00
C.	Change in Cash Balance this month (B4 - B1)	C.	\$ (10,157.00)
D.	Change this year (B4 - A)	D.	\$ (3,712.00)
SUMMARY			
1.	TOTAL CASH (Investment Balance Plus Checking Balance from B4)	1.	\$ 884.00
2.	Total Obligated Payments	2.	\$ 174.00
3.	Available Monies (1 - 2)	3.	\$ 710.00

Note: Exercise 2 - What's Missing

Budget reports

Monthly financial reports for second –class cities show budget categories reflecting anticipated revenues and expenditures for the fiscal year in a budget format using the *City Budget Manual* distributed by DCED. The manual categorizes revenues by type. Expenditures are categorized by department, enterprise, and grant.

Monthly financial reports are not like reports in the private sector. Private sector reports are profit and loss statements on the business. Municipal corporations, particularly those in Alaska, provide services that private enterprise might provide in other states. Therefore you need to keep this in mind when considering a monthly financial report.

There are revenues that come from providing services, such as water and sewer, in the form of user fees. Expenditures of utility monies (enterprise funds), which come from user fees, are first used to pay for the services provided, secondly for long-term improvements and eventual replacement of the enterprise, and lastly may be moved to the unrestricted category.

There are revenues that come from outside sources - state revenue sharing funds, safe community funds, and PILT (Payment in Lieu of Taxes). These funds are unrestricted in concurrence with the granting agency.

There are revenue sources whose purpose is specific, such as to build a washeteria or provide an elders program. These funds are restricted.

Expenditures of unrestricted funds can be used for any purpose. Expenditures of restricted funds are earmarked for their specific purpose.

Because of all the restrictions listed above, reading monthly financial statements is not easy.

The cost of providing services

Monthly financial reports are key to understanding what it costs to provide services to users. The monthly financial report reflects revenues received and expenses incurred for the period. The report shows whether or not a service is self-supporting. If the service is not self-supporting, it shows why it is not self-supporting. The reason may be non-payment by users or by some of the users. If the reason is lack of support by some of the users of the service, it shows how much of a subsidy is being generated by general revenue funds (unrestricted funds). It shows how much the city may have to cut back in other services to subsidize the enterprise for those not paying. The report compares current financial situations with the approved budget.

QuickBooks Monthly Financial Statements

Overhead 166

The QuickBooks accounting program has 360 preset reports available. These reports cover topics in banking, accounts receivable, customers and sales, purchases and payables, accounting and finances. A few of the more common statements are shown on the next few pages. Remember that the best statements are those that provide information that best suit the organization.

Balance sheet

Overhead 167

The **Balance Sheet** (or Statement of Asset and Liabilities if the statement is on cash basis) is the first of all the financial statements. It shows the balance in all the asset, liabilities, and fund equity accounts. It is developed on the “Fundamental accounting equation”.... **Assets = Liabilities + Fund Equity**. The balance sheet shows you where you are at a certain point in time.

ALASKAN CITY					
COMBINED BALANCE SHEET - ALL FUND TYPES					
Year Ended June 30, 2002					
	Governmental Fund Types			Proprietary Fund Type	Total
	General	Special Revenue	Capital Projects	Enterprise	2002
Assets					
Cash	\$ (3,014)	\$ 22,843	\$ 8,498	\$ 43,891	\$ 72,218
Investment pool	1,628	-	-	-	1,628
Accounts receivable, net	13,151	-	-	61,828	74,979
Prepaid expenses	5,564	-	-	-	5,564
Inventory	-	-	-	12,347	12,347
Due from other governments	-	17,882	212,655	-	230,537
Due from other funds	229,942	240	-	-	230,182
Property, plant and equipment, net	-	-	-	3,633,466	3,633,466
Total assets	<u>\$ 247,271</u>	<u>\$ 40,965</u>	<u>\$ 221,153</u>	<u>\$ 3,751,532</u>	<u>\$ 4,260,921</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	44,146	-	-	22,532	66,678
Accrued expenses	8,131	240	-	3,663	12,034
Deferred revenue (note 8)	-	-	8,498	-	8,498
Due to other funds (note 6)	240	17,882	212,060	-	230,182
Total liabilities	<u>\$ 52,517</u>	<u>\$ 18,122</u>	<u>\$ 220,558</u>	<u>\$ 26,195</u>	<u>\$ 317,392</u>
Fund balances					
Undesignated	194,754	22,843	595	-	218,192
Contributions, net	-	-	-	3,638,232	3,638,232
Retained earnings (deficit)	-	-	-	87,105	87,105
Total Fund balances	<u>194,754</u>	<u>22,843</u>	<u>595</u>	<u>3,725,337</u>	<u>3,943,529</u>
Total liabilities and fund balance	<u>\$ 247,271</u>	<u>\$ 40,965</u>	<u>\$ 221,153</u>	<u>\$ 3,751,532</u>	<u>\$ 4,260,921</u>

The balance sheet is the first and most common of the financial statements provided by the audited financial statements or computerized accounting programs. It reports the financial position of the organization on a particular date.

The balance sheet is divided into two portions that equal the same total. The top portion reports all the assets. The bottom portion is the liabilities and fund balance. Within both of these portions is a section called the “current.” The section on the top is the current assets; the bottom section is the current liabilities. Current assets create, or turn into cash within the next accounting period. Current liabilities require cash within the next accounting period. Knowing how your current assets compare to your current liabilities is important for planning cash management. Are there sufficient funds available to pay bills?

Another important number on this report is the total of cash in the various bank accounts. Council members need to be alert to any negative numbers in the bank accounts. A negative number indicates an overdrawn account. Penalties and overdrawn fees can amass easily and there are communities that have been assessed over \$40,000 in NSF (non-sufficient funds) fees in one year.



NOTE: Exercise 3 - HELP!!!

Statement of revenues and expenditures

Overhead 168

The *Statement of Revenues and Expenditures* is the second of the financial statements presented. It reflects the activity in the revenue and expenses accounts. Its portion of the accounting equation is *Income – Expenses = Profit* (or loss if expenses are greater than income). Profit increases Fund Equity. The statement of revenues and expenditures reflects how the organization has done during the period.

The columns separate revenue and expenditures by fund.

ALASKAN CITY				
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND				
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES				
Year Ended June 30, 2002				
	General	Special Revenue	Capital Projects	Enterprise
Revenues	\$ 285,442	\$ 677,592	\$ 301,318	\$ 1,264,552
Expenditures				
Current				
City Council	23,816	-	-	23,816
Administration	295,445	-	-	295,445
Public Safety	141,440	-	-	141,440
Public Works	71,079	-	-	71,079
Comprehensive Planning	-	-	-	-
Elderly programs	-	5,629	-	5,629
Games division	-	631,393	-	631,393
COP FAST Grant	-	41,170	-	41,170
Grant expenditures	-	-	288,543	288,543
Total expenditures	531,780	678,192	288,543	1,498,515
Excess (deficit) of revenues over expenditures	(246,338)	(600)	12,975	(233,963)
Other financing sources (uses)				
Operating transfers in	243,542	15,193	1,534	260,269
Operating transfers (out)	(23,157)	(5,000)	(14,509)	(42,666)
Total financing sources	220,385	10,193	(12,975)	217,603
Excess (deficit) of net revenues and other financing sources over expenditures and other financing uses before extraordinary item	(25,953)	9,593	-	(16,360)
Extraordinary item	97,765	-	-	97,765
Excess (deficit) of net revenues and other financing sources over expenditures and other financing uses	71,812	9,593	-	81,405
Fund balances, beginning of year	122,942	13,250	595	136,787
Prior period adjustment	-	-	-	-
Fund balances, end of year	\$ 194,754	\$ 22,843	\$ 595	\$ 218,192

Cash flow report
Overhead 169

The **Cash Flow Statement** is the third of the financial statements and it shows how your cash was received and spent. In a governmental entity the only funds that include a cash flow report are the enterprise funds.

ALASKAN CITY STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS Year Ended June 30, 2002	
	<u>2002</u>
Cash flows from operating activities	
Cash received from customers	\$ 805,968
Cash payments to suppliers and employees	(298,554)
Other operating expenses	(236,885)
Net cash provided by operating activities	270,529
Cash flows from non-capital financing activities	
Operating transfers out	(217,603)
Donations	(9,535)
Advances from other funds	<u>-</u>
Net cash (used in) non-capital financing activities	(227,138)
Cash flows from capital financing activities	
Purchase of equipment	(18,160)
Funds contributed by capital projects	18,160
Net cash (used in) capital financing activities	-
Net increase (decrease) in cash	43,391
Cash	
Beginning of year	<u>500</u>
End of year	<u><u>\$ 43,891</u></u>

This important report is the least understood of all financial reports, yet it is incredibly important for planning purposes. The cash flow report translates all revenues and expenses into cash received or spent (inflows and outflows). For example, if you made a profit of \$10,000 but your accounts receivable (the money your customers owe you) increases by \$9,000, then all you have in cash is \$1,000. The cash flow reports reverses all items you accrue on the income statement.

Overhead 170

The cash flow report also segregates all cash inflows and outflows into three types: those that come from operations, those that come from financing; and those that come from investing.

‘**Operations**’ is money you get from sales (inflow); operating outflows are monies you spend on payroll and other operating expenses (outflow).

‘**Financing**’ is borrowing the money (inflow), or repaying loans (outflow).

‘**Investing**’ money is spent purchasing fixed assets (outflow); investment money comes from an investment making some money for you (inflow).

So why is it important to break your cash ‘flows’ into the three sources? It is important to know if you are making money from your operations (and how much cash you make from operations), versus cash coming from the other two sources.



Bankers love the cash flow report. So should you.

How to Read a Financial Report

Overhead 171

Use common sense

Financial statements can be confusing and intimidating. It is important that managers and council members take time and look at all the numbers. Use common sense when you look at the numbers to see if they match the budget and are what you expected.

Ask questions

Never be afraid to ask questions related to amounts you question or don't understand. Have the administrator or clerk, who prepared the statement answer the question in a way you understand. There is no stupid question. Surprisingly, you will find that others will later tell you they had the same question but were afraid to ask.

Read from the bottom up

One helpful hint to understanding what the many statements are reporting is to start by reading the ‘bottom line’ or ‘total lines’ first. If it is a profit or loss statement, this will immediately inform you of whether operations produced a surplus or a deficit in the period reported. This may make other amounts more meaningful as you read them. Look at total revenues, and then read the detail lines. You will start to see relationships. Look at total expenditures, and then look for the largest items. This will show what items are costing most.

NOTE: Exercise 4 - Home Report

Certified Financial Reports

The certified financial reports discussed earlier in the chapter are formatted to follow the budget reports prepared in chapter two. **These reports, separated by department, compare current activity against amounts budgeted for the fiscal year.**



FY 02 FINANCIAL OVERVIEW	
FY 01 Year-End Cash Balance	\$ _____
Total FY 02 Operating Revenues	+ \$ _____
Total FY 02 Capital/Special Project Revenues	+ \$ _____
Total Available Funds in FY 02	= \$ _____
Total FY 02 Operating Expenditures	\$ _____
Total FY 02 Capital/Special Project Expenditures	+ \$ _____
Total All FY 02 Expenditures	\$ _____
FY 02 Ending Cash Balance (+/-) (Total Available Funds - Total Expenditures)	= \$ _____

Certified Financial Statements

We started out with developing the budget and from the budget provided Monthly Financial Reports to the governing body showing actual revenues and expenditures to date. At the end of the fiscal year the information from the Monthly Financial Reports is transferred to the **Certified Financial Report** showing revenues and expenditures compared to the budget for the year.

If Monthly Financial Reports are kept up to date this is a fairly simple process.

Shows the actual budget for the year

Note the forms are very similar with just a few notable changes.

*Shows the actual
budget for the year*

*Shows the actual
amounts for the year*

OPERATING EXPENDITURES		ADMINISTRATIVE	EXPENSE
		FY 02 BUDGET (As Amended)	FY 02 ACTUAL
Personal Services:	Salaries	\$ 20,800	\$ 17,700
	Stipends	\$	\$
	Payroll Taxes	\$ 2,268	\$ 5,146
	Workers Compensation	\$ 572	\$ 104
	Retirement / Pension	\$ 624	\$ 2,700
	Other: General Liability	\$ 769	\$ 769
	Other: Sub	\$ 1,104	\$ 1,830
Total Personal Services		\$ 26,137	\$ 28,249
Travel:	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other:	\$	\$
	Other:	\$	\$
Total Travel		\$ -	\$ -
Facility Expenses:	Telephone	\$ 3,036	\$ 3,558
	Rent	\$	\$
	Electricity	\$ 6,000	\$ 4,712

NOTE: Exercise 5 – What Do These Tell Me

Notes

[illegible]

Financial Reports Worksheet

- 1) Financial reports provide information that is accurate and timely so decision makers can make sound decisions. ☐ T ☐ F
- 2) List 3 of the 9 characteristics of a financial report.

- 3) Readers of financial reports make _____ about the financial statements of an organization.
- 4) GAAP means Generally Accepted _____ Principles.
- 5) When assets are recorded at their cost value it is called cost basis, not the fair market value.
☐ T ☐ F
- 6) The monthly financial statements are the balance sheet, statement of revenue and expenses and the _____ flow statement.
- 7) A certified financial statement is a statement of _____ for a given period accompanied by a resolution of the governing body that states the information is true and correct.
- 8) An audit is an independent examination of the local government's records.
☐ T ☐ F
- 9) There are three types of audit opinions, an unqualified (clean) opinion, a qualified opinion, and a disclaimed opinion. ☐ T ☐ F
- 10) Four million dollars is the limit an organization may have before an audit is required.
☐ T ☐ F
- 11) The balance sheet shows the _____ in all the assets, liabilities, and fund equity accounts.
- 12) An audit can show which of the following?
☐ Bookkeeping practices. ☐ Theft
☐ Improper uses of funds ☐ All of the above

Answer Sheet
Financial Reports Worksheet

- 1) Financial reports provide information that is accurate and timely so decision makers can make sound decisions. ☒ T ☐ F
- 2) List 3 of the 9 characteristics of a financial report.
useful; reliable; verifiable
- 3) Readers of financial reports make assumptions about the financial statements of an organization.
- 4) GAAP means Generally Accepted Accounting Principles.
- 5) When assets are recorded at their cost value it is called cost basis, not the fair market value.
☒ T ☐ F
- 6) The monthly financial statements are the balance sheet, statement of revenue and expenses and the cash flow statement.
- 7) A certified financial statement is a statement of revenues and expenditures for a given period accompanied by a resolution of the governing body that states the information is true and correct.
- 8) An audit is an independent examination of the local government's records.
☒ T ☐ F
- 9) There are three types of audit opinions, an unqualified (clean) opinion, a qualified opinion, and a disclaimed opinion. ☒ T ☐ F
- 10) Four million dollars is the limit an organization may have before an audit is required.
☐ T ☒ F
- 11) The balance sheet shows the balance in all the assets, liabilities, and fund equity accounts.
- 12) An audit can show which of the following?

<input type="checkbox"/> Bookkeeping practices.	<input type="checkbox"/> Theft
<input type="checkbox"/> Improper uses of funds	<input checked="" type="checkbox"/> All of the above

Chapter 6

FINANCIAL REPORTS

Exercise 1

SO YOU'RE THINKING OF BUYING A CAR

Purpose

To relate eight qualitative characteristics of financial reporting (an abstract concept) to the qualitative aspects of buying a car/truck (a concrete concept). This helps participants understand the importance of the eight qualitative characteristics that make a financial report useful.

Format

Small groups.

Resources needed

Flip chart or overhead with the eight characteristics of financial reports listed, five descriptions of vehicles and a sheet of paper for each group.

Time requirement

0:15

Background

To increase understanding of what a qualitative characteristic is by relating the application of qualitative characteristics of buying a car.

Activity

Tell the groups they need to purchase a new vehicle for the utility operator as the present vehicle just threw a rod. The vehicle is used to haul water, fuel, supplies and pick up the RMW and other agency people and their equipment when they come to town. There is \$15,000 available in the budget for the purchase and delivery of the vehicle. The groups must look at the vehicle descriptions and list each of the descriptive items about the vehicle under the correct category.

Useful - Do you need a car? Truck? Compact? 4-wheel drive? What type of roads are you driving on?

Relevant – How much money do you have to spend? What kind of car can you afford? Is it practical?

Reliable – How did the car do on crash tests? What's its repair record? How long is the warranty? Where can you have it fixed?

Verifiable – Does the car on the sticker, match to the claims made by the salesman?

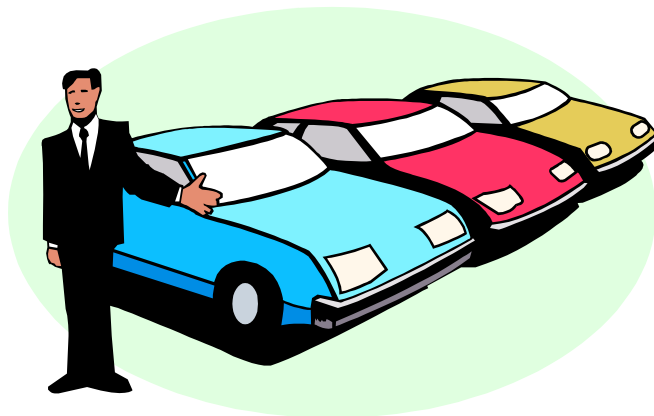
Understandable – Can you understand the salesman? Is he trying to hype the sale? Can you understand the manual with the car?

Timeliness – If you order the car, how long is it going to take, when do you need the car?

Comparability – How does the car compare with other cars of the same price?

Completeness – What comes standard with the car, does it have a warranty?

When the groups are finished, they are to tell you what kind of vehicle they purchased, why and from whom?



A & W Used Cars
San Francisco, California
1996 Mitsubishi ECLIPSE SPYDER GS-T 2-Door Convertible

General Information

Model Year 1996
Car Type Convertible
Number of Doors 2-Door
Seating Capacity 4 passengers
Manufacturer Mitsubishi

Mileage

Mileage 15,000 – 60,000

Price

Original Price \$24,990
Retail Price \$12,875 - \$15,515
Wholesale Price \$10,815 - \$13,015

Fuel Economy

City Mileage 20 mpg
Highway Mileage 26 mpg
Fuel Tank Capacity 16.9 gallons

Safety

Safety Rating No Data

Reliability

Reliability Rating No Data

Interior

Cargo Capacity 5 cubic ft
Front Head Room 38.700 inches
Rear Head Room 34.900 inches
Front Leg Room 43.3 inches
Rear Leg Room 28.4 inches

Exterior

Length 172.2 inches
Width 68.7 inches
Height 52.8 inches
Curb Weight 3,053 lbs
Wheelbase 98.800 inches

Technical Specifications

Horsepower 210
Number of cylinders 4 cylinders
Displacement 2 liters
Engine Type Gasoline

Drive Train Front-Wheel Drive
Transmission Manual, Automatic
Brakes All Disc

Available Features

Anti-Lock Brakes Yes
Driver-Side Airbag Yes
Passenger-Side Airbag Yes
Air Conditioning Yes

Power Brakes Yes
Power Door Locks Yes
Power Steering Yes
Power Windows Yes

Cal Worthington

Anchorage, Alaska

1992 Toyota PICKUP XTRACAB SR5 V-6 2-Door Truck 4WD

General Information

Model Year 1992
Car Type Truck
Number of Doors 2-Door
Seating Capacity 5 passengers
Manufacturer Toyota

Mileage

Mileage 35,000 – 140,000

Price

Original Price \$17,548
Retail Price \$5,232 - \$8,873
Wholesale Price \$4,277 - \$6,878

Fuel Economy

City Mileage 13 mpg
Highway Mileage 17 mpg
Fuel Tank Capacity 19.3 gallons

Safety

Safety Rating 3

Reliability

Reliability Rating 4.5

Interior

Cargo Capacity No Data
Front Head Room 38.6 inches
Rear Head Room 34.700 inches
Front Leg Room 43.700 inches
Rear Leg Room No Data

Exterior

Length 193.100 inches
Width 66.5 inches
Height 67.300 inches
Curb Weight 3,805 lbs
Wheelbase 121.900 inches

Technical Specifications

Horsepower 150
Number of cylinders 6 cylinders
Displacement 3 liters
Engine Type Gasoline

Drive Train 4WD
Transmission Manual, Automatic
Brakes Disc/Drum

Available Features

Anti-Lock Brakes Yes
Driver-Side Airbag No
Passenger-Side Airbag No
Air Conditioning No
Cassette Player Yes
Cruise Control Y

Power Brakes Yes
Power Door Locks No
Power Steering Yes
Power Windows Yes
Sunroof/Moonroof Yes

Seekins Cars

Fairbanks, Alaska

1995 GMC SAFARI PASSENGER VAN XT SLX 3-Door Van

General Information

Model Year 1995
Car Type Van
Number of Doors 3-Door
Seating Capacity 8 passengers
Manufacturer GMC

Mileage

Mileage 20,000 – 80,000

Price

Original Price \$18,458
Retail Price \$7,855 - \$10,255
Wholesale Price \$6,385 - \$8,185

Fuel Economy

City Mileage 16 mpg
Highway Mileage 21 mpg
Fuel Tank Capacity 27 gallons

Safety

Safety Rating 5

Reliability

Reliability Rating 3

Interior

Cargo Capacity No Data
Front Head Room 39.200 inches
Rear Head Room 37.900 inches
Front Leg Room 41.6 inches
Rear Leg Room 36.5 inches

Exterior

Length 189.800 inches
Width 77.5 inches
Height 76.2 inches
Curb Weight 4,083 lbs
Wheelbase 111 inches

Technical Specifications

Horsepower 190
Number of cylinders 6 cylinders
Displacement 4.300 liters
Engine Type Gasoline

Drive Train Rear-Wheel Drive
Transmission Automatic
Brakes Disc/Drum

Available Features

Anti-Lock Brakes Yes
Driver-Side Airbag Yes
Passenger-Side Airbag No
Air Conditioning Yes
Cassette Player Yes

Power Brakes Yes
Power Door Locks Yes
Power Steering Yes
Power Windows Yes
Sunroof/Moonroof No

Gene's Auto
Fairbanks, Alaska

1991 Jeep CHEROKEE LAREDO 2-Door Sport Utility Vehicle 4WD

General Information

Model Year 1991
Car Type Sport Utility Vehicle
Number of Doors 2-Door
Seating Capacity 5 passengers
Manufacturer Jeep

Mileage

Mileage 40,000 – 150,000

Price

Original Price \$17,174
Retail Price \$4,480 - \$7,780
Wholesale Price \$3,452 - \$6,203

Fuel Economy

City Mileage 17 mpg
Highway Mileage 22 mpg
Fuel Tank Capacity 20.200 gallons

Safety

Safety Rating 4

Reliability

Reliability Rating 3.25

Interior

Cargo Capacity No Data
Front Head Room 38.3 inches
Rear Head Room 38 inches
Front Leg Room 41 inches
Rear Leg Room 35.3 inches

Exterior

Length 165.300 inches
Width 70.5 inches
Height 63.3 inches
Curb Weight 3,016 lbs
Wheelbase 101.400 inches

Technical Specifications

Horsepower 190
Number of cylinders No Data
Displacement 4 liters
Engine Type Gasoline

Drive Train 4WD
Transmission Manual, Automatic
Brakes Disc/Drum

Available Features

Anti-Lock Brakes Yes
Driver-Side Airbag No
Passenger-Side Airbag No
Air Conditioning Yes
Cassette Player Yes
Cruise Control Yes

Power Brakes Yes
Power Door Locks Yes
Power Steering Yes
Power Windows Yes
Sunroof/Moonroof Yes

Eileen's Used Cars

Seattle, Washington

1992 Ford F-150 REGULAR CAB FLARESIDE 2-Door Truck 4WD

General Information

Model Year 1992
Car Type Truck
Number of Doors 2-Door
Seating Capacity 3 passengers
Manufacturer Ford

Mileage

Mileage 35,000 – 140,000

Price

Original Price \$16,187
Retail Price \$4,875 - \$7,995
Wholesale Price \$3,782 - \$6,383

Fuel Economy

City Mileage 14 mpg
Highway Mileage 18 mpg
Fuel Tank Capacity 18.200 gallons

Safety

Safety Rating 4

Reliability

Reliability Rating 4.5

Interior

Cargo Capacity No Data
Front Head Room 40.3 inches
Rear Head Room No Data
Front Leg Room 41.1 inches
Rear Leg Room No Data

Exterior

Length 219.100 inches
Width 79 inches
Height 73.7 inches
Curb Weight 4,090 lbs
Wheelbase 116.800 inches

Technical Specifications

Horsepower 145
Number of cylinders 6 cylinders
Displacement 4.900 liters
Engine Type Gasoline

Drive Train 4WD
Transmission Manual, Automatic
Brakes Disc/Drum

Available Features

Anti-Lock Brakes Yes
Driver-Side Airbag No
Passenger-Side Airbag No
Air Conditioning Yes
Cassette Player Yes

Power Brakes Yes
Power Door Locks Yes
Power Steering Yes
Power Windows Yes
Sunroof/Moonroof No

Chapter 6

FINANCIAL REPORTS

Exercise 2

WHAT'S MISSING

Purpose

To reinforce understanding of financial statement format and information.

Format

Participants will be given financial statements with missing information (numbers and labels). They are to fill in the missing information

Resources needed

Balance sheet, statement of revenue and expenditures with missing amounts, pencil, calculator

Time requirement

0:20

Background

It would not be possible for participants to develop financial statements, in their entirety, in class. However, they should be instructed to read and understand. This exercise assists in that process

Activity

The group will be divided into groups of two or three participants. They will work collectively to fill in the missing information. Each of the two statements (balance sheet and statement of revenues and expenditures) has 10 missing amounts or labels.

This exercise could also be performed individually.

(If students do exercise 2, do not do exercise 3)

The statements on pages 270 and 271 contain the answers to this exercise

Balance Sheet
Arctic City, Alaska
June 30, 2003

Assets	
Current Assets	
Cash and Equivalents	
Checking	20,550
Savings	67,453
_____ on hand	1,657
Total Cash and Equivalents	89,660
Accounts _____	23,426
Other Current Assets	
Liquor inventory	15,652
Pull tab inventory	
Total Other Current Assets	31,652
Total Current Assets	144,738
_____ Assets	
Property and Equipment	
Liquor store	60,000
Maintenance truck	
Water truck	65,000
Sewer and water	250,000
Total Property & Equipment	425,000
Accumulated Depreciation	
A/D Maintenance truck	(27,500)
A/D Water truck	(32,000)
A/D Sewer & Water	(125,000)
Total _____ Depreciation	(184,500)
Land	
Liquor store	4,000
Sewer & water	25,000
Total Land	29,000
Total _____ Assets	269,500
Total Assets	414,238
Liabilities & Equity	
Liabilities	
Accounts Payable	31,000
_____ Liabilities	
FUTA payable	
FICA payable	950
Medicare payable	625
Total Payroll Liabilities	3,075
Total Liabilities	34,075
Equity	
Fund Balance	112,000
Retained Earnings	178,158
Net Income	
Total Equity	380,163
Total Liabilities & Equity	414,238

Statement of Revenue and Expenditures	
Arctic City, Alaska	
June 30, 2003	
Equipment Rental Revenue	42,500
Fees	5,250
Gaming Revenue	
Bingo Revenue	
Pull tab Revenue	78,260
Total Revenue	162,510
Interest Revenue	480
Liquor Store Sales	250,000
Service Revenue	42,000
Total Income	502,740
Cost of Goods Sold	
Cost of Bingo Supplies	800
Cost of Liquor	98,000
Cost of Pull Tabs	4,800
Prizes	
Bingo	25,000
Pull tabs	100,300
Total Prizes	125,300
Total Cost of	228,900
	273,840
Expenses	
Communications	6,500
Donations	14,525
Dues & Fees	
Membership fees	1,100
Other fees	80
Total Dues & Fees	1,180
Equipment	8,950
Fuel Products	
Diesel	3,000
Heating fuel	53,000
Total Fuel Products	56,000
Bond Fees	500
Meeting Fees	200
Payroll	32,000
Payroll Taxes	5,120
PERS	960
Workmen's Compensation	1,200
Professional Fees	
Accounting	
Auditing	6,000
Legal	2,000
Total Professional Fees	8,500
Supplies	21,000
Travel	
Lodging	250
Per Diem	1,800
Total Travel	2,050
Utilities	
Electricity	24,650
Water & Sewer	
Total	25,150
Total Expenses	183,835
Net Income	90,005

Answer Sheet

Balance Sheet
 Arctic City, Alaska
 June 30, 2003

Assets

Current Assets

Cash and Equivalents

Checking 20,550

Savings 67,453

Cash on hand 1,657

Total Cash and Equivalents 89,660

Accounts Receivable 23,426

Other Current Assets

Liquor inventory 15,652

Pull tab inventory 16,000

Total Other Current Assets 31,652

Total Current Assets 144,738

Fixed Assets

Property and Equipment

Liquor store 60,000

Maintenance truck 50,000

Water truck 65,000

Sewer and water 250,000

Total Property & Equipment 425,000

Accumulated Depreciation

A/D Maintenance truck (27,500)

A/D Water truck (32,000)

A/D Sewer & Water (125,000)

Total Accumulated Depreciation (184,500)

Land

Liquor store 4,000

Sewer & water 25,000

Total Land 29,000

Total Fixed Assets 269,500

Total Assets 414,238

Liabilities & Equity

Liabilities

Accounts Payable 31,000

Payroll Liabilities

FUTA payable 1,500

FICA payable 950

Medicare payable 625

Total Payroll Liabilities 3,075

Total Liabilities 34,075

Equity

Fund Balance 112,000

Retained Earnings 178,158

Net Income 90,005

Total Equity 380,163

Total Liabilities & Equity 414,238

Answer Sheet

Statement of Revenue and Expenditures
Arctic City, Alaska
June 30, 2003

Income	
Equipment Rental Revenue	42,500
Fees	5,250
Gaming Revenue	
Bingo Revenue	84,250
Pull tab Revenue	78,260
Total Gaming Revenue	162,510
Interest Revenue	480
Liquor Store Sales	250,000
Service Revenue	42,000
Total Income	502,740
Cost of Goods Sold	
Cost of Bingo Supplies	800
Cost of Liquor	98,000
Cost of Pull Tabs	4,800
Prizes	
Bingo	25,000
Pull tabs	100,300
Total Prizes	125,300
Total Cost of Goods Sold	228,900
Gross Profit	273,840
Expenses	
Communications	6,500
Donations	14,525
Dues & Fees	
Membership fees	1,100
Other fees	80
Total Dues & Fees	1,180
Equipment	8,950
Fuel Products	
Diesel	3,000
Heating fuel	53,000
Total Fuel Products	56,000
Bond Fees	500
Meeting Fees	200
Payroll	32,000
Payroll Taxes	5,120
PERS	960
Worksmen's Compensation	1,200
Professional Fees	
Accounting	500
Auditing	6,000
Legal	2,000
Total Professional Fees	8,500
Supplies	21,000
Travel	
Lodging	250
Per Diem	1,800
Total Travel	2,050
Utilities	
Electricity	24,650
Water & Sewer	500
Total Utilities	25,150
Total Expenses	183,835
Net Income	90,005

Chapter 6

FINANCIAL REPORTS

Exercise 3

HELP!!!

Purpose

It is very easy to look at a financial statement without really looking at the document. This exercise will make participants look closely at how the statements are constructed, and reinforce understanding of the balance sheet and statement of revenue

Format

Each group will be given 16 pieces of paper and tape is available in the room to reassemble torn balance sheet and statement of revenue and expenditures.

Resources needed

Tape, torn (16 pieces) balance sheet and statement of revenue and expenditures.

Time requirement

0:10

Background

Participants will need to know the format of the balance sheet and statement of revenues.

Activity

The group will be divided into four groups of three or four participants. They will be told the following scenario: “It is 15 minutes before the monthly council meeting. You need to copy the balance sheet and statement of revenue and expenditures for council members. You look around your office and can’t find the documents. While looking, you notice some notes on the front corner of your desk that you no longer need, you tear them into pieces and throw into your wastebasket. You call the clerk, who tells you she put the documents on the front corner of your desk. You look and the statements are torn and in the wastebasket. You open the computer to reprint the reports, and find you don’t know the clerk’s password. You call the clerk; no one answers the phone. HELP!!!

Remember the meeting is in 15 minutes, you only have 10 to figure out what to do.

(If students do exercise 3 do not do exercise 2)

Balance Sheet
Arctic City, Alaska
June 30, 2003

Assets

Current Assets

Cash and Equivalents	
Checking	20,550
Savings	67,453
Cash on hand	1,657
Total Cash and Equivalents	89,660
Accounts Receivable	23,426
Other Current Assets	
Liquor inventory	15,652
Pull tab inventory	16,000
Total Other Current Assets	31,652

Total Current Assets 144,738

Fixed Assets

Property and Equipment	
Liquor store	60,000
Maintenance truck	50,000
Water truck	65,000
Sewer and water	250,000
Total Property & Equipment	425,000
Accumulated Depreciation	
A/D Maintenance truck	(27,500)
A/D Water truck	(32,000)
A/D Sewer & Water	(125,000)
Total Accumulated Depreciation	(184,500)
Land	
Liquor store	4,000
Sewer & water	25,000
Total Land	29,000

Total Fixed Assets 269,500

Total Assets 414,238

Liabilities & Equity

Liabilities

Accounts Payable	31,000
Payroll Liabilities	
FUTA payable	1,500
FICA payable	950
Medicare payable	625
Total Payroll Liabilities	3,075

Total Liabilities 34,075

Equity

Fund Balance	112,000
Retained Earnings	178,158
Net Income	90,005
Total Equity	380,163

Total Liabilities & Equity 414,238

Statement of Revenue and Expenditures
Arctic City, Alaska
June 30, 2003

Income	
Equipment Rental Revenue	42,500
Fees	5,250
Gaming Revenue	
Bingo Revenue	84,250
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Total Gaming Revenue	162,510
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Cost of Goods Sold	
Cost of Bingo Supplies	800
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Bingo	25,000
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Expenses	
Communications	6,500
Donations	14,525
Dues & Fees	
Membership fees	1,100
Other fees	80
Total Dues & Fees	1,180
Equipment	8,950
Fuel Products	
Diesel	3,000
Heating fuel	53,000
Total Fuel Products	56,000
Bond Fees	500
Meeting Fees	200
Payroll	32,000
Payroll Taxes	5,120
PERS	960
Worksmen's Compensation	1,200
Professional Fees	
Accounting	500
Auditing	6,000
Legal	2,000
Total Professional Fees	8,500
Supplies	21,000
Travel	
Lodging	250
Per Diem	1,800
Total Travel	2,050
Utilities	
Electricity	24,650
Water & Sewer	500
Total Utilities	25,150
Total Expenses	183,835
Net Income	90,005

Chapter 6

FINANCIAL REPORTS

Exercise 4

HOME REPORT

Purpose

Application of lesson to local information.

Format

Participants are requested to bring local financial statements for the group to analyze. These would need to be compiled, reviewed or audited financial statements (not certified) that include balance sheet, statements of revenues and expenditures, and other related statements.

Resources needed

Copies of financial statements

Time requirement

0:20

Background

Participants will create a list of 10 questions, and then answer same from analysis of financial statements.

Activity

Groups of three to four participants analyze actual financial statements with auditor's report and accompanying notes.

Participants create 10 questions they want to discover from financial statements, and then analyze statements to answer questions. These questions are of the sort, "Did we have a surplus or lose money last year?"

This exercise has no answer sheet.

Chapter 6

FINANCIAL REPORTS

Exercise 5

WHAT DO THESE TELL ME?

Purpose

This is a variation of exercise #4, the difference is that participants will use the balance sheet and statement of revenue and expenditures supplied with lesson.

To demonstrate an understanding of the balance sheet and statement of revenue and expenditures.

Format

Participants are divided into groups of three or four. Each group constructs a list of ten questions they want to know from a balance sheet and statement of revenue and expenditures. Then using the balance sheet and statement supplied with lesson, they look for the answer to their question in the two statements.

Resources needed

Sheet of paper, balance sheet and statement of revenues and expenditures handout.

Time requirement

0:30

Background

Participants will create a list of 10 questions, and then answer same from analysis of balance sheet and statement of revenue and expenditures.

Activity

Participants create 10 questions they want to discover from financial statements, and then analyze statements to answer questions. These questions are of the sort, “Did the organization have a surplus or lose money last year?”

They need to locate the answer, or determine if the information is available from the two statements.

The statements are located on pages 277 and 278.

There is no answer sheet related to this exercise.

Balance Sheet
Arctic City, Alaska
June 30, 2003

Assets

Current Assets

Cash and Equivalents	
Checking	20,550
Savings	67,453
Cash on hand	1,657
Total Cash and Equivalents	89,660
Accounts Receivable	23,426
Other Current Assets	
Liquor inventory	15,652
Pull tab inventory	16,000
Total Other Current Assets	31,652

Total Current Assets 144,738

Fixed Assets

Property and Equipment	
Liquor store	60,000
Maintenance truck	50,000
Water truck	65,000
Sewer and water	250,000
Total Property & Equipment	425,000

Accumulated Depreciation	
A/D Maintenance truck	(27,500)
A/D Water truck	(32,000)
A/D Sewer & Water	(125,000)
Total Accumulated Depreciation	(184,500)

Land	
Liquor store	4,000
Sewer & water	25,000
Total Land	29,000

Total Fixed Assets 269,500

Total Assets 414,238

Liabilities & Equity

Liabilities

Accounts Payable	31,000
Payroll Liabilities	
FUTA payable	1,500
FICA payable	950
Medicare payable	625
Total Payroll Liabilities	3,075

Total Liabilities 34,075

Equity

Fund Balance	112,000
Retained Earnings	178,158
Net Income	90,005
Total Equity	380,163

Total Liabilities & Equity 414,238

Statement of Revenue and Expenditures
Arctic City, Alaska
June 30, 2003

Income	
Equipment Rental Revenue	42,500
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Interest Revenue	480
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Cost of Bingo Supplies	800
Cost of Liquor	98,000
Cost of Pull Tabs	4,800
Prizes	
Bingo	25,000
Pull tabs	100,300
Total Prizes	125,300
Total Cost of Goods Sold	228,900
Gross Profit	273,840
Expenses	
Communications	6,500
Donations	14,525
Dues & Fees	
Membership fees	1,100
Other fees	80
Total Dues & Fees	1,180
Equipment	8,950
Fuel Products	
Diesel	3,000
Heating fuel	53,000
Total Fuel Products	56,000
Bond Fees	500
Meeting Fees	200
Payroll	32,000
Payroll Taxes	5,120
PERS	960
Worksmen's Compensation	1,200
Professional Fees	
Accounting	500
Auditing	6,000
Legal	2,000
Total Professional Fees	8,500
Supplies	21,000
Travel	
Lodging	250
Per Diem	1,800
Total Travel	2,050
Utilities	
Electricity	24,650
Water & Sewer	500
Total Utilities	25,150
Total Expenses	183,835
Net Income	90,005

Chapter 7

Managerial Reports



Financial Management for Utility Managers
Department of Community and Economic Development

Managerial Reports

Instructor Notes

Welcome back and review

Chapter 7 builds from chapter 6 on financial statements, and would benefit from a brief review of chapter 6 at the beginning of class

Chapter 7 – Managerial Reports

The chapter presents the necessity and purpose of managerial reports and demonstrates the practical aspects of preparing managerial reports

Exercises

There are two exercises in chapter 7
Exercise #1 – working with ratio8™ in analyzing financial statements
Exercise #2 – a case study of a managerial report when things go wrong

Worksheet

Students complete the worksheet at the conclusion of the lesson. A satisfactory score of 80% demonstrates understanding of the material.

Exercise Notes

Exercises for this chapter should generally follow the presentation of the material. Ratio8™ should be done after the presentation of material. The case study should be done during discussions of managerial reports on problem resolution.

Managerial Reports

Objectives

- To discuss efficiency and effectiveness
- To explore capacity building
- Present different managerial and operational reports
- Discuss analytical ratios to apply to management reports



Key Terms

- Efficiency
- Effectiveness
- Technical capacity
- Managerial capacity
- Financial capacity
- Ratio analysis

Efficiency and Effectiveness

Overhead 172

An advertisement on television promotes a car's fuel efficiency. That ad tells us the car gets so-o-o many miles per gallon, more than the average car. That example would be a perfect explanation of efficiency, getting more miles to the gallon. That's what efficiency is, the ability to do as much with your resources as possible.

For a utility system efficiency is producing safe water for the least cost. For a local government that means operating with no more than the required personnel to get the job completed. It is providing the best government at the least cost to its citizens.

Effectiveness, for a utility, is the ability to produce safe water and supply on a dependable basis. Washers and dryers at the washeteria that work all the time is a measure of effectiveness.

The purpose of government is to provide services, such as streets and roads maintenance, airports, and water and sewer utilities. Customers and citizens typically want excellent customer service. Effectiveness needs to correlate with excellence.

Can a local government be efficient without being effective? Of course. That's called being 'cheap', you get it for less but it doesn't work for very long. You can also be effective without being efficient. You get it done and done well, but it takes ten employees three weeks to get the job done, when it should take only two employees three days.

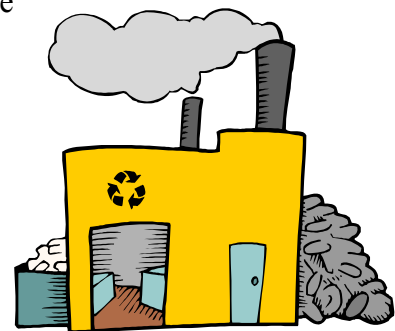
Quality is being both efficient and effective.

As required under the Safe Drinking Water Act (SDWA) local governments are encouraged to be efficient and effective in the operation of their utility systems. EPA has established three types of capacity that utility systems must be able to meet: technical capacity, managerial capacity and financial capacity.

Technical capacity

Overhead 173

Technical capacity is having trained, capable and reliable personnel, equipment and supplies to do the job well. For water and sewer systems, including washeterias, technical capacity is awareness of your physical plant and the chemicals, critical spare parts, water testing, and level of operator training required to maintain and operate effectively and efficiently. Revenue from the utility must be sufficient to support the capital structure and build a reserve to insure production. When rates are sufficiently established to fund maintenance of the plant and equipment this assures that you have the ability to provide technical capacity.



Managerial capacity

Overhead 174

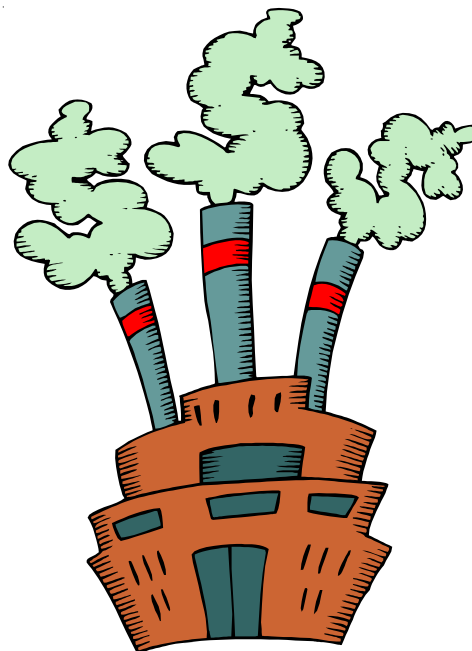
Managerial capacity is trained personnel who are capable, reliable and have the necessary skills to oversee all of the services provided by your entity effectively and efficiently. Managerial capacity is providing support to staff and information to the decision makers to enable them to understand their function in supplying services to users of the services. Managerial capacity is training personnel to operate the system and accounting functions. Understanding the type of training needed is critical to managerial capacity.



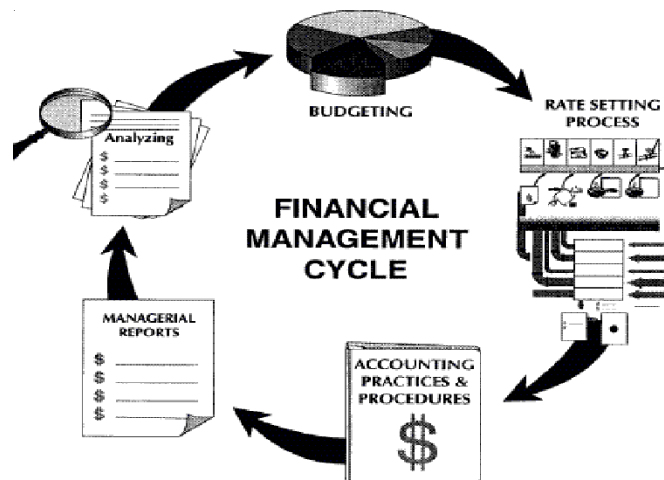
Financial capacity

Overhead 175

Financial capacity means that you understand the true cost of all of the services provided to fund operations and maintenance (O&M) as well as funding major capital expenses. It is the ability to explain the cost of user fees and to accurately identify options for decision makers as system costs increase or decrease. Financial capacity is operating the system in the most efficient and effective manner possible. In order to achieve financial capacity, you must provide financial information in a timely manner.



What Information Do You Need?



You need financial reports and managerial reports.

Monthly financial reports

Overhead 176

The monthly financial statement compares:

- Approved budget
- Revenues and expenditures for the current month
- Total revenues collected and expenses paid for the year (YTD)
- Remaining expenditures authorized in the budget
- Revenues not yet received

Manager's report

Overhead 177

As important as the financial report is the report by the manager to the policy-making body is even more important. This report should explain the financial report and point out any problems or trends that need to be addressed to prevent surprises for the policy-making body. Remember Looneytoonville? The management report would explain what's happening and present options to the council to avoid having to discontinue operations entirely.

To assess the efficiency and effectiveness of operations managers and staff need managerial reports. Sometime these reports are verbal narratives that are presented to the council rather than in a written format. They report on the aspects of operations that are indicators of the financial health of the entity.

City of Looneytoonville				
Monthly Financial Statement -- Statement of Revenues				
Month of: March, 2003 Water/Sewer				
			Monthly Revenue plus Previous month's YTD equals this YTD	
Revenue Categories	FY <u>03</u> Budget	Monthly Revenue	YTD Revenue	Expected Revenues
1	2	3	4	5
Residential Customers	57,600	2,200	5,900	51,700

The financial reports would show that we are not collecting what we expected to collect and would show that we are continuing to spend as budgeted. (o.k., it's a simplistic example).

City of Looneytoonville				
Monthly Financial Statement -- Statement of Expenditures				
Month of: March, 2003 Water/Sewer				
			Monthly Expenditures plus Previous month's YTD equals this YTD	
Expenditure Categories	FY <u>03</u> Budget	Monthly Expenditures	YTD Expenditures	Balance
1	2	3	4	5
Totals	57,600.00	4,800.00	14,400.00	43,200.00

The management report would point out what this means to the council. This report shows we have lost **\$8,500** in revenues from residential customers so far this year and have had to take this from **other sources**. **Our expenses have remained steady**. We have eleven disconnects ready to go this month. Every disconnect costs us. Other sources we've taken from include the budget for the council, from admin/finance and from the gaming account. **We need to make some decisions and soon**. Options I'm presenting include another look at the water/sewer budget with an eye to **raising rates due to the number of disconnects**.

Having a town meeting **to find out why so many disconnects.**

Discussion Points:

- ♦ Raising the reconnect fees
- ♦ Dispensing with all inducements to pay ahead for six months
- ♦ Taking a look at reducing or discontinuing council meeting fees
- ♦ Applying all gaming revenues to the water and sewer utility

Others?

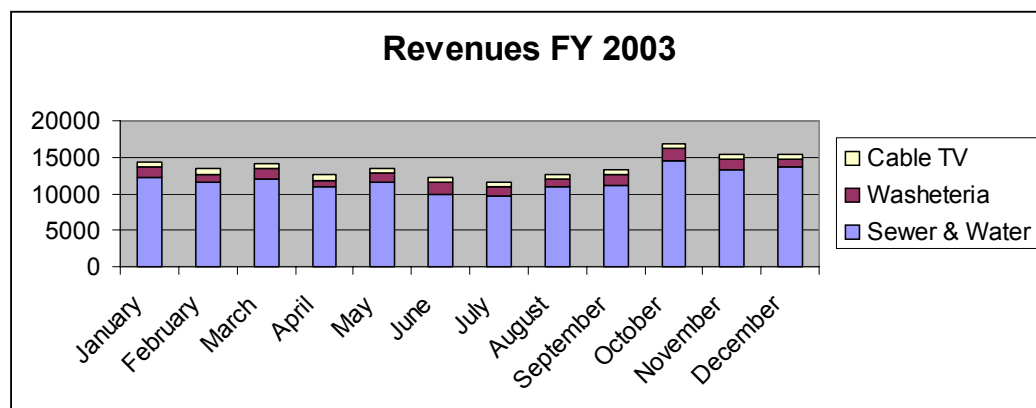
NOTE: Exercise 1 - Angel Rock

Types of reports

Operating reports that are important to management are reports that compare one thing to another. For example these reports may be comparisons of prior years periods. They may be year-to date compared to prior year-to-date. They may compare utility revenues against similar utilities.

QuickBooks, a commercially based software accounting package, allows the user to create numerous revenue reports. These include: sales by item sold, sales by customer, sales by representative, sales graph, and customized reports.

Use of graphs to present financial information to a non-technical audience is very popular. The best sales reports are line or bar graphs that illustrate revenue trends. Revenue graphs can also reflect revenue by percentage, against all revenue. As a picture is worth a thousand words, a graph is an easily understood way to describe a particular financial situation.



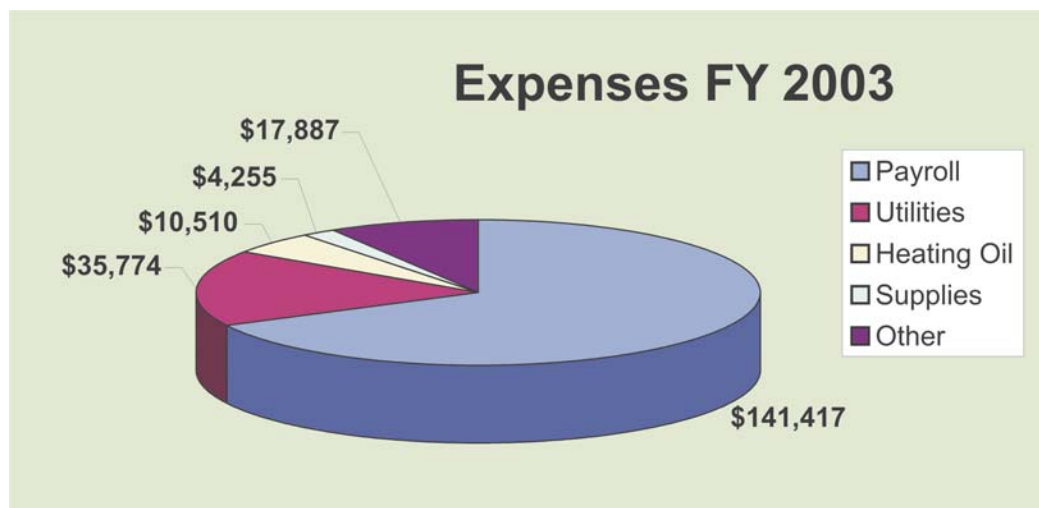
Expense reports

Overhead 178

Like revenue reports, the most practical expense reports to management are those that compare present activity against prior activity by expense object code (or account).

Quickbooks reports for expenditures include profit and loss reports, reports on expenses by item and vendor, and detailed listings by account code.

Graphs are a good way to illustrate expenses. The easiest understood types of graphs are pie charts that show the percentage or amount of a particular expense item against the whole expense amount. (See example below.)



Payroll reports
Overhead 179

Payroll reports must be maintained for two reasons: 1) to report to the council the amount of payroll expenditures and the detail related to payroll, and 2) payroll totals for the preparation of payroll tax reports.

Quarterly payroll tax reports are extremely important, and large penalties and interest are assessed when they are filed delinquent or incorrect. The Form 941, shown below, is due on a quarterly basis.

Form 941
(Rev. January 2002)
Department of the Treasury
Internal Revenue Service (99)

Employer's Quarterly Federal Tax Return
▶ See separate instructions revised January 2002 for information on completing this return.
Please type or print.

Enter state code for state in which deposits were made **only** if different from state in address to the right (see page 2 of instructions).

Name (as distinguished from trade name) _____ Date quarter ended _____
Trade name, if any _____ Employer identification number _____
Address (number and street) _____ City, state, and ZIP code _____

OMB No. 1545-0029
T
FF
FD
FP
I
T

If address is different from prior return, check here ▶ ☐

IRS Use

1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	4	4	4	5	5	5
6	7	8	8	8	8	8	8	8	8	9	9	9	9	9	9	10	10	10	10	10	10

If you do not have to file returns in the future, check here ▶ ☐ and enter date final wages paid ▶ _____
If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶ _____

1 Number of employees in the pay period that includes March 12th . ▶ 1

2 Total wages and tips, plus other compensation 2

3 Total income tax withheld from wages, tips, and sick pay 3

4 Adjustment of withheld income tax for preceding quarters of calendar year 4

5 Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions) 5

6 Taxable social security wages 6a × 12.4% (.124) = 6b
Taxable social security tips 6c × 12.4% (.124) = 6d

7 Taxable Medicare wages and tips 7a × 2.9% (.029) = 7b

8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax 8

9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ _____ ± Fractions of Cents \$ _____ ± Other \$ _____ = 9

10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions) 10

11 Total taxes (add lines 5 and 10) 11

12 Advance earned income credit (EIC) payments made to employees 12

13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941)) 13

14 Total deposits for quarter, including overpayment applied from a prior quarter 14

15 Balance due (subtract line 14 from line 13). See instructions 15

16 Overpayment. If line 14 is more than line 13, enter excess here ▶ \$ _____
and check if to be: ☐ Applied to next return or ☐ Refunded.

• All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941).
• Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ▶ ☐
• Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here ▶ ☐

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.

(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see separate instructions)? ☐ Yes. Complete the following. ☐ No

Designee's name ▶ _____ Phone no. ▶ () _____ Personal identification number (PIN) ▶ _____

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▶ _____ Print Your Name and Title ▶ _____ Date ▶ _____

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2002)

Budget reports
Overhead 180

Budget reports compare actual revenue and expenditure amounts either received or spent against the amount budgeted for each item.

Budget reports can also reflect the variance from the budget and the percentage amount. Budget reports are very important for comparing budgeted performance against actual financial performance.

When budgeted items exceed the amount appropriated the budget needs to be amended. Do not code expenditures to another line item that is currently under budget. Coding inappropriate expenses to another line item expense item is an accounting gimmick that can get you into trouble. Be sure to follow accepted accounting practices know as GAAP, or generally accepted accounting principles. Seek help if you need assistance.

Report of Operations
Overhead 181
Production

Production reports can be written or can be verbal reports depending upon the local community requirements. For example, does your council want a written or verbal report on how many gallons of water the sewer and water utility currently produced? The best production reports compare current information with prior periods or year to date totals. Production reports are best assisted with visual illustrations, such as graphs or charts.

MINTO WATER DATA SHEET 1					PSID# 300159					MONTH				YEAR			
DATE	TIME	TANK LEVEL FEET	MAKE UP WATER METER	WELL METER	G P M	VL TEMP IN	VL TEMP OUT	VL PSI IN	VL PSI OUT	TANK TEMP IN	TANK TEMP OUT	FL MG/L	CL MG/L	SAMPLE LOCATION	DAY TANK FUEL	OPERETOR NAME	BACKUP WELL
1																	
2																	
3																	
4																	
5																	
6																	
7																	

Management
Overhead 182

The best management reports compare current operations with future plans, and what is forecasted for upcoming periods.

Problems
Overhead 183

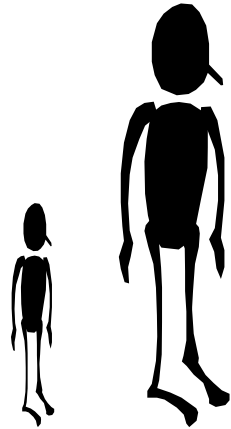
These reports present the problem, why it is a problem, the effect of the problem and possible options for solutions. Presenting options provides choices to decision makers and demonstrates that the options presented are solutions to the problem

Personnel
Overhead 184

Personnel reports are related to personnel issues. Be careful when reporting on personnel issues because of certain state and federal personnel privacy rules. Check with your attorney if you have specific questions you are unsure about.

Financial Ratio Analysis

Overhead 185



Another important tool to assess the community's financial condition is the use of financial ratio analysis. Financial ratios can provide insight into debt burden, financial operations, economic conditions, and user rates.

Overhead 186

*Financial Ratio Analysis for Alaska Native Village : Ratio 8^{TM**}* is a guidebook and Excel-based spreadsheet program developed for rural villages, to assist local decision makers with an evaluation of a water utility's financial condition. The guidebook presents eight ratios to assess the cost of financing public water systems. The guidebook focuses on eight financial areas:

1. Operations
2. Revenue
3. Liability
4. Sales
5. Expense
6. Assets
7. Debt
8. Accounts Receivable

To use Ratio 8TM, data is entered into a chart of accounts based on QuickBooks. The Ratio 8TM program will create charts and graphs. Ratio data typically is collected over a period of three years and analyzed to help local governments understand their organization's financial strengths and weaknesses.

A simple definition of a ratio is "A financial ratio is an expression of the relationship between two items selected from financial records."

(Footnote)

^{**} Ratio 8TM was developed by the Environmental Finance Center at Boise State University. For more information about the Center and its services, please contact 208-426-1567 or visit them on the Web at <http://sspa.boisestate.edu/efc>[.]

Overhead 187

The Ratio 8™ program calculates the following ratios:

- 1) Operating ratio – measures the amount of operating revenue versus the total amount of operating expenses for a utility system.
- 2) Per capita revenue ratio – measures the amount of revenue based on the current population.
- 3) Current ratio – measures liquidity, calculated by taking the amount of current assets divided by the amount of current liabilities.
- 4) Sales ratio – measures user charges as a percent of total revenue.
- 5) Expense ratio – measures the percent of operating expense that makes up total expense.
- 6) Quick ratio – measure the liquidity of the utility based on its most liquid assets, including cash, accounts receivable, short-term notes receivable and short-term investments in marketable securities.
- 7) Debt ratio – measures to what extent a utility's assets are financed through loans.
- 8) Accounts receivable – measures the percent of user charges that still need to be collected.

Overhead 188

Trend analysis

Trend analysis is a comparison of financial data over time (typically over three years). Trend analysis can help the user identify whether the utility's financial capacity is improving or declining.

All of the ratios in Ratio 8™ can be graphed to present a trend analysis. This will help management determine changes in their financial operations. Ultimately, the changes can be compared with other communities.

The goal of studying ratios and the use of trend analysis is to better understand the financial health of the organization.

Summary

Management reports combine financial data with operational data to provide the manager with information that could not be easily seen from just looking at financial numbers. The use of all of these tools will provide information for the decision makers to know just how the utility is doing and to point out any weaknesses or deficiencies in the system.

NOTE: Exercise 2 – Ratio 8

Notes

[illegible]

Managerial Reports Worksheet

True or False

- ☐ T ☐ F 1) Quarterly payroll tax reports are extremely important, and no penalties or interest are assessed when they are filed delinquent or incorrect.
- ☐ T ☐ F 2) Budget reports compare actual revenue and expenditure amounts either received or spent against the amount budgeted for each item.
- ☐ T ☐ F 3) Financial ratios can provide insight into debt burden, financial operations, economic conditions, and user rates.
- ☐ T ☐ F 4) Quality is being both efficient and effective.
- ☐ T ☐ F 5) Expense reports compare present activity against prior activity by expense object code.
- ☐ T ☐ F 6) Manager's reports explain the financial report and point out problems or trends.
- ☐ T ☐ F 7) Supplemental reports compare current operations with future plans, and what is forecasted for upcoming periods.

Fill in the Blank

- 8) _____ capacity is having trained, capable and reliable personnel, equipment and supplies to do the job well.
- 9) _____ capacity is trained personnel who are capable, reliable and have the necessary skills to oversee all the services provided by your entity effectively and efficiently.
- 10) _____ capacity means that you understand the true cost of all of the services provided to fund operations and maintenance (O&M) as well as funding major capital expenses.
- 11) A financial _____ is an expression of the relationship between two items selected from financial records.
- 12) _____ is a comparison of financial data over time.

Managerial Reports Worksheet (continued)

- 13) When _____ items exceed the amount appropriated, the budget needs to be amended.
- 14) The purpose of government is to provide ☐ affordable housing ☐ health care ☐ services.
- 15) What are two types of reports necessary in operating a quality utility?
☐ Personnel and I-9 ☐ Financial and Managerial
☐ Trend Analysis and Employee Evaluation
- 16) How many years are typical for trend analysis?
☐ One ☐ Two ☐ Three

Managerial Reports Worksheet Answers

True or False

- ☐ T ☒ F 1) Quarterly payroll tax reports are extremely important, and no penalties or interest are assessed when they are filed delinquent or incorrect.
- ☒ T ☐ F 2) Budget reports compare actual revenue and expenditure amounts either received or spent against the amount budgeted for each item.
- ☒ T ☐ F 3) Financial ratios can provide insight into debt burden, financial operations, economic conditions, and user rates.
- ☒ T ☐ F 4) Quality is being both efficient and effective.
- ☒ T ☐ F 5) Expense reports compare present activity against prior activity by expense object code.
- ☒ T ☐ F 6) Manager's reports explain the financial report and point out problems or trends.
- ☐ T ☒ F 7) Supplemental reports compare current operations with future plans, and what is forecasted for upcoming periods.

Fill in the Blank

- 8) Technical capacity is having trained, capable and reliable personnel, equipment and supplies to do the job well.
- 9) Managerial capacity is trained personnel who are capable, reliable and have the necessary skills to oversee all the services provided by your entity effectively and efficiently.
- 10) Financial capacity means that you understand the true cost of all of the services provided to fund operations and maintenance (O&M) as well as funding major capital expenses.
- 11) A/an financial Ratio is an expression of the relationship between two items selected from financial records.
- 12) Trend analysis is a comparison of financial data over time.

Managerial Reports Worksheet Answers (continued)

- 13) When *budgeted* items exceed the amount appropriated, the budget needs to be amended.
- 14) The purpose of government is to provide ☐ affordable housing ☐ health care ☒ services.
- 15) What are two types of reports necessary in operating a quality utility?
- ☐ Personnel and I-9 ☒ Financial and Managerial
- ☐ Trend Analysis and Employee Evaluation
- 16) How many years are typical for trend analysis?
- ☐ One ☐ Two ☒ Three

Chapter 7

MANAGERIAL REPORTS

Exercise 1

Ratio8™

Purpose

The object of a financial statement is to inform the reader about the financial health of the organization. This exercise develops that process.

Format

Each group enter financial information into Ratio8™ program and discuss the financial health of the organization.

Resources needed

Laptop computers with Ratio8™ loaded on system. The balance sheet, and statement of revenues and expenditures from chapter 6 pages 270 and 271.

Time requirement

0:40

Background

Application of Ratio8™

Activity

The group will be divided into groups of three or four participants. Each group will input the data from the two statements contained in chapter 6 and included in the handouts. The groups will enter the data into the Ratio8™ Excel spreadsheet, and produce the ratios included in the next six pages. When the groups are finished, instructors will ask for volunteers to give their groups analysis of the financial health of the organization.

Chart of Accounts		
Acct #	Account Name	\$ Amt
1000	Assets	414,238
1100	Current Assets	144,738
1110	Cash	89,660
1120	A/R	23,426
1130	Inventories	31,652
1140	Prepaid Expenses	0
1200	Property, Plant & Equipment	269,500
1210	Land	29,000
1220	Buildings	60,000
1230	Utility System	125,000
1240	Construction Work in Progress	0
1250	Equipment	55,500
2000	Liabilities	34,075
2100	Current Liabilities	34,075
2110	A/P	31,000
2120	Payroll taxes payable	3,075
2130	Accrued interest payable	0
2140	Notes payable	0
2200	Long-Term Debt	0
3000	Equity	380,163
3100	Retained Earnings	178,158
3200	Other	202,005
4000	Water Utility Operating Revenues	273,360
4100	Fees & Service	47,250
4110	Hook-up fees	0
4120	Other	47,250
4200	Residential	0
4300	Commercial	0
4400	School District	0
4500	Contractual	0
4600	Other	226,110
5000	Water Utility Non-Operating Revenues	480
5100	Interest income	480
5200	Gain on sale of assets	0
5300	Transfers	0
5310	Interfund	0
5320	Intergovernmental	0
5321	State	0
5322	Federal	0
5400	Other	0
6000	Water Utility Operating Expenses	83,930
6100	Personnel	39,280
6110	Salaries	32,000
6120	Stipends	0
6130	Payroll taxes payable	5,120
6140	Workers compensation	1,200
6150	Retirement/Pension	960
6160	Non-retirement benefits	0
6170	Certifications	0
6180	Other	0
6200	Travel	2,050
6210	Airfare	0
6220	Ground Transportation	0
6230	Per Diem	1,800
6240	Training Workshops	0
6250	Other	250
6300	Facilities	25,150

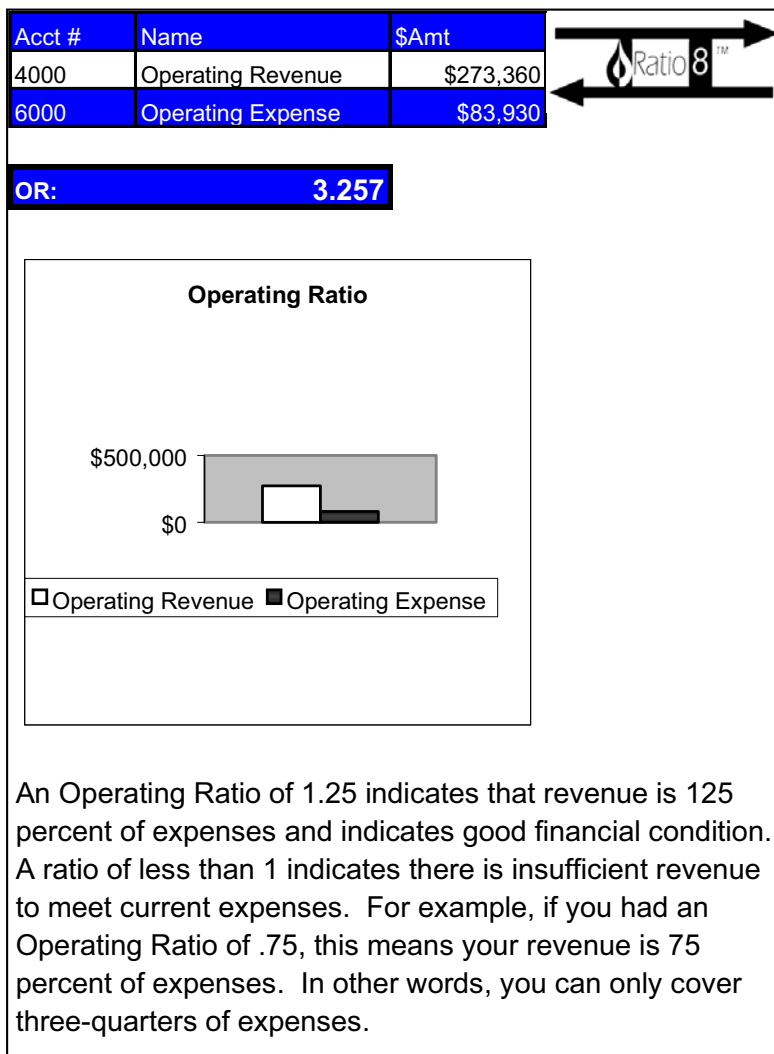


Chart of Accounts		Ratio 8™	
OPERATING REVENUE			
Fees & Service			
4110	Hook-up fees		
4120	Other	\$ 47,250	
4100	Total Fees & Service		\$ 47,250
4200	Residential		\$ 158,400
4300	Commercial		
4400	School District		
4500	Contractual		
4600	Other	\$ 226,110	
4000	Total Operating Revenue		\$ 431,760
OPERATING EXPENSE			
Personnel			
6110	Salaries	\$ 32,000	
6120	Stipends		
6130	Payroll taxes payable	\$ 5,120	
6140	Workers compensation	\$ 1,200	
6150	Retirement/Pension	\$ 960	
6160	Non-retirement Benefits		
6170	Certifications		
6180	Other		
6100	Personnel Total		\$ 39,280
Travel			
6210	Airfare		
6220	Ground Transportation		
6230	Per Diem	\$ 1,800	
6240	Training Workshops		
6250	Other	\$ 250	
6200	Travel Total		\$ 2,050
Facilities			
6310	Telephone		
6320	Rent		
6330	Electricity	\$ 24,650	
6340	Water & Sewer	\$ 500	
6350	Fuel oil		
6360	Repairs/Maintenance Bldgs		
6370	Other		
6300	Facilities Total		\$ 25,150
Equipment			
6410	Materials	\$ 8,950	
6420	Supplies		
6430	Parts		
6400	Equipment Total		\$ 8,950
Other			
6510	Interest & late charges		
6520	Insurance & bonding		
6530	Member dues & subscriptions		
6540	Bank charges		
6550	Audit/Accounting/Legal	\$ 8,500	
6500	Other Total		\$ 8,500
6000	Total Operating Expense		\$ 83,930
OPERATING RATIO CALCULATION			
4000	Total Operating Revenue		\$ 431,760
		divided by	
6000	Total Operating Expense		\$ 83,930
		equals	
Operating Ratio			5.144

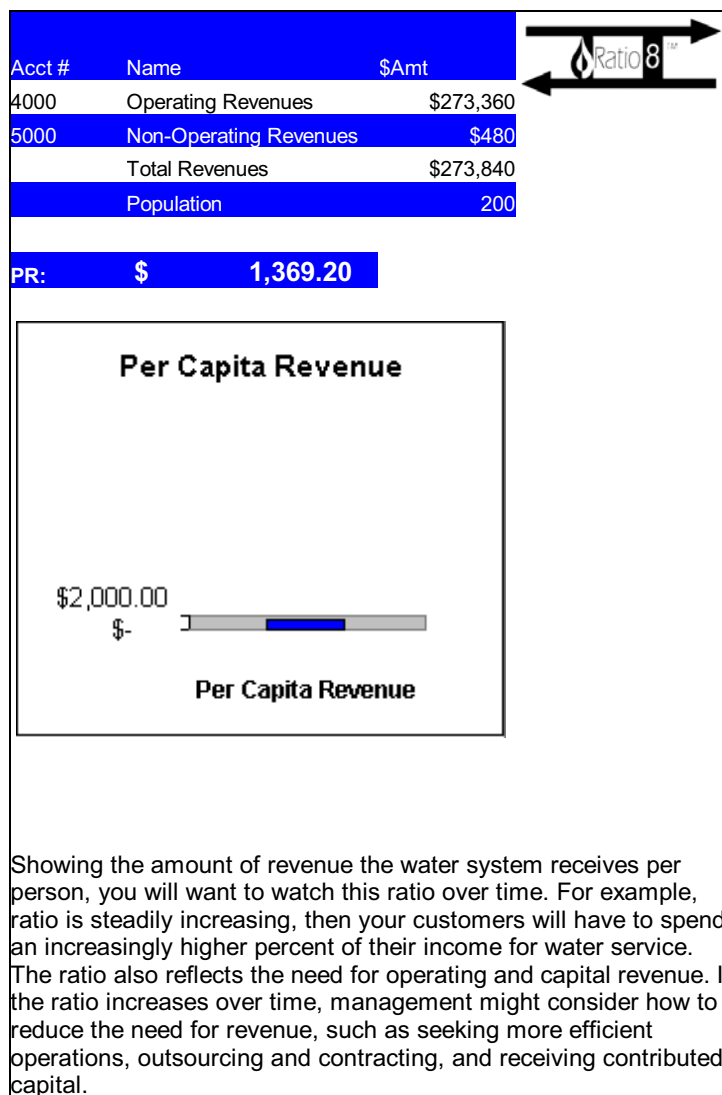



Chart of Accounts			
OPERATING REVENUE			
	Fees & Service		
4110	Hook-up fees		
4120	Other	\$ 47,250	
4100	Total Fees & Service	\$ 47,250	
4200	Residential		
4300	Commercial		
4400	School District		
4500	Contractual		
4600	Other	\$ 226,110	
4000	Total Operating Revenue		\$ 273,360
NON-OPERATING REVENUE			
5100	Interest Income	\$ 480	
5200	Gain on Sale of Assets		
	Transfers		
5310	Interfund		
	Intergovernmental		
5321	State		
5322	Federal		
5320	Total Intergovernmental		
5300	Total Transfers		
5400	Other		
5000	Total Non-Operating Revenue		\$ 480
PER CAPITA RATIO CALCULATION			
4000	Total Operating Revenue	\$ 273,360	
		plus	
5000	Total Non-Operating Revenue	\$ 480	
		equals	
	Total Revenue	\$ 273,840	
		divided by	
	Population	200	
		equals	
	Per Capita Ratio		\$ 1,369.200

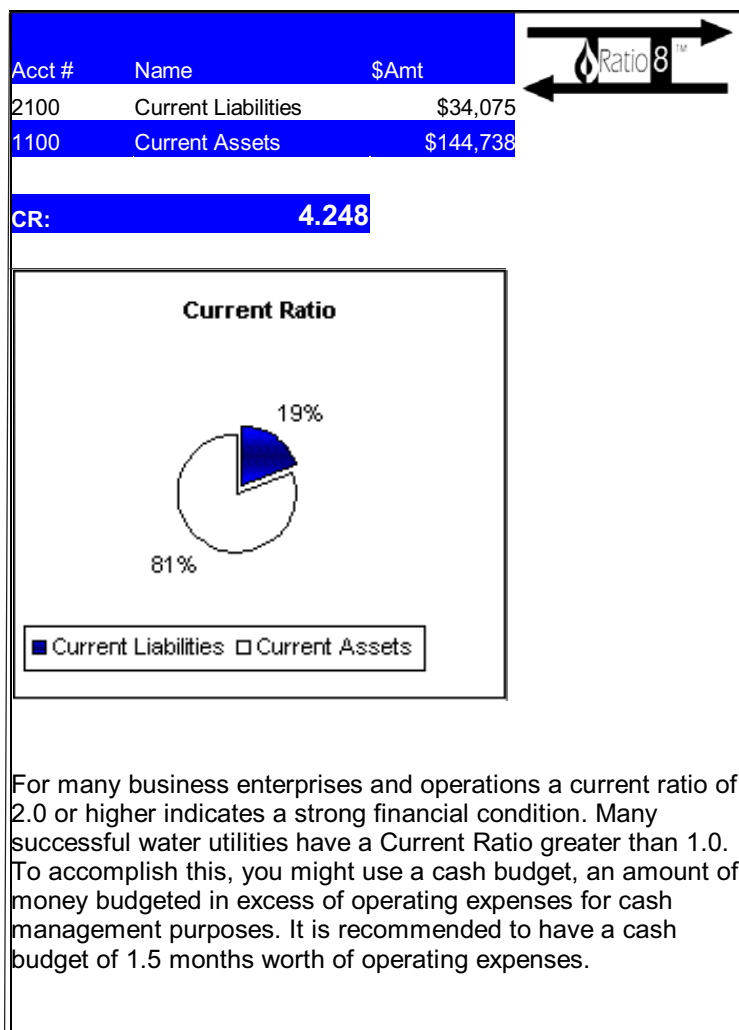
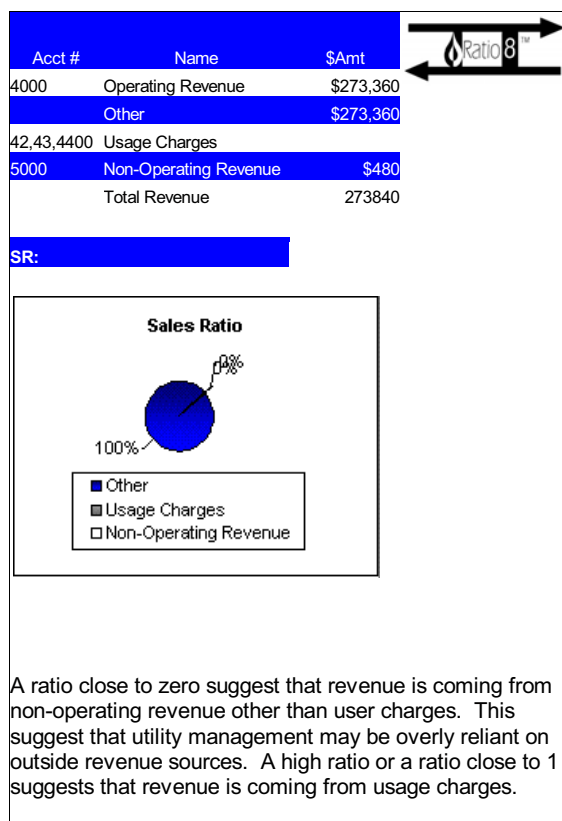


Chart of Accounts

Ratio 8™

Current Assets			
1110	Cash	<u>89,660</u>	
1120	A/R	<u>23,426</u>	
1130	Inventories	<u>31,652</u>	
1140	Prepaid Expenses	<u></u>	
1100	Total Current Assets		<u>144,738</u>
Current Liabilities			
2110	A/P	<u>31,000</u>	
2120	Payroll Taxes Payable	<u>3,075</u>	
2130	Accrued Interest Payable	<u></u>	
2140	Notes Payable	<u></u>	
2100	Total Current Liabilities		<u>34,075</u>
Current Ratio			
1100	Current Assets		<u>\$ 144,738</u>
		divided by	
2100	Current Liabilities		<u>\$ 34,075</u>
		equals	
	Current Ratio		4.248



Being aware of what the ratios are can help with decision making and forecasting.

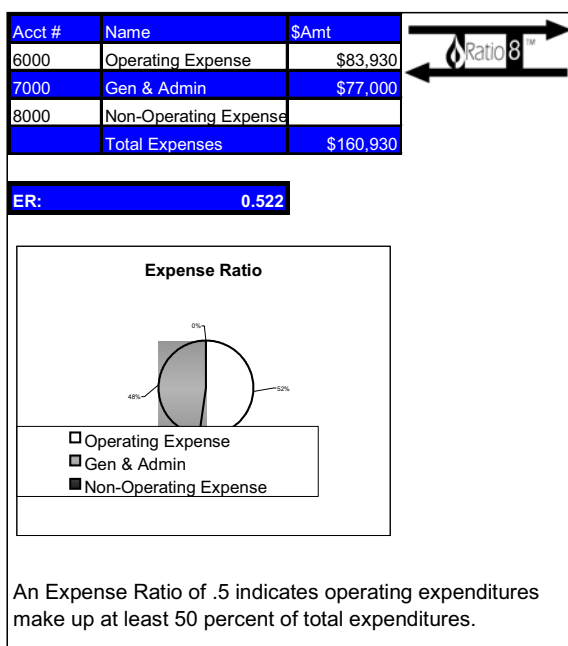


Chart of Accounts		Ratio 8™	
OPERATING REVENUE			
	Fees & Service		
4110	Hook-up fees		
4120	Other	\$ 47,250	
4100	Total Fees & Service		
	Usage Charges		
4200	Residential		
4300	Commercial		
4400	School District		
	Total Usage Charges		
4500	Contractual		
4600	Other	\$ 226,110	
4000	Total Operating Revenue		\$ 226,110
NON-OPERATING REVENUE			
5100	Interest income	\$ 480	
5200	Gain on sale of assets		
5300	Transfers		
5310	Interfund		
5320	Intergovernmental		
5321	State		
5322	Federal		
	Total Intergovernmental		
	Total Transfers		
5400	Other		
5000	Total Non-Operating Revenues		\$ 480
	Total Revenue		\$ 226,590
SALES RATIO CALCULATION			
4000	Total Operating Revenue		\$ 226,110
		plus	
5000	Total Non-Operating Revenue		\$ 480
		equals	
	Total Revenue		\$ 226,590
	Usage Charges		
		divided by	
	Total Revenue		226,590
		equals	
	Sales Ratio		

Summary

Water system revenues *should not be used to pay for other local government services just as other local government services should not be used to pay for non-collection for such services.* Using water revenues for other purposes, and not maintaining adequate financial reserves for future expenditures, will certainly increase the costs of operation in the long run.

- In order to pay for itself, your water system must rely on user fees (the amount you charge your customers).
- You are responsible for keeping the public informed about the financial condition of your system and what it costs to provide safe, dependable water.
- Customers support a rate structure that is fair and equitable to all ratepayers and produces the revenue necessary to operate the system successfully.

The following questions can help you decide whether a rate adjustment is needed in the future.

- Did revenue exceed system expenses each of the last three years?
- Were you able to make scheduled payments on all long-term debt?
- Is your system in compliance with state drinking water standards and regulations?
- Were you able to cover the cost of emergency and preventative maintenance as needed?
- Have you had a rate increase in the last three years?

Good rate structures are ***based on good budgets and good customer records.*** It's tough to develop a fair and equitable rate structure if you're not sure what your expenses and revenues have been for the past two to three years and how much water you're selling to each customer.

Be sure your system is being well managed. Don't ask customers to pay for inefficiency and waste. Be prepared to point to cost-saving measures you have already put into place to ensure customers that the system is being run efficiently.

Below is a list of some questions to ask:

- Have you minimized your system's water loss? Have you found and repaired all leaks?
- Do all customers have meters?
- Are all meters in working order? When was the last time meters were calibrated or checked?
- Is your collections policy strictly enforced?
- Have you increased fees and service charges to reflect annual cost of performing the service? (i.e. – reconnect charges, hook-up fees, etc.)
- Do you enforce penalties for people who cheat the system?
- Are you earning the highest possible interest on your utility's bank account?
- Are you purchasing chemicals or supplies in quantity, or is it possible to share the cost of purchase of these items with a nearby system to get volume breaks?

Do you have good internal financial controls to eliminate errors and fraud?

Customer education should be an ongoing part of your water system's operation. Your system belongs to the customers. One of the best times for educating customers is while you are developing the annual budget. Let the public know when you are working on budgets. Post special notices inviting them to attend budget meetings. Let the residents of the community know that you have nothing to hide. The more your customers know about what it takes to provide the safe drinking water they take for granted, the more likely they will be to support a rate increase.

Sound financial management provides the information necessary for the delivery of safe water to your community. Sound management reports provides the interpretation of such reports to your governing body. Sound customer relations assures your community knows the status of your utility.

Chapter 7 **MANAGERIAL REPORTS**

Exercise 2 **ANGEL ROCK ‘Y’**

Purpose For group to discuss case study where many things about construction project are going wrong.

Format Small groups

Resources needed Paper for note taking, case study handout

Time requirement 0:15

Background Managerial reports must address problems, and report on possible options for resolution.

Activity The class will be divided into four groups of three or four participants. They will be given the case study related to Angel Rock. Instructors review the case study and let students know they are to discuss the problems, assess the related expense, and provide possible actions to correct the situation.

At the end of the time, have each group report individually on their results and then ask the rest of the groups to provide advice as each group completes their results.

A little exercise within this exercise. Instructors assign 7 council member roles (one is the mayor whose brother-in-law is the operator who keeps breaking the lines and who totally dismisses anything that places blame on the brother-in-law and just keeps repeating that he’s a good operator and knows what he’s doing.) One of the council members confronts the mayor with the fact that there are several operators available who have applied for the position and are very capable of doing the work and at least know enough to hand dig once they are close to lines. Furthermore one of them should have been hired because of existing policies. The mayor shouldn’t have hired his brother-in-law who has no experience and doesn’t even have a driver’s license. One of the instructors can play the part of the project superintendent who wants to fire the operator and hire someone who knows what they are doing and can follow directions. One can be the owner of the utility whose lines keep being broken and would like his costs paid for or he’ll sue. The rest of the participants are the public.

Managerial Reports

Exercise 2

Case Study

Angel Rock is a Second Class City of approximately 300 people. They have one store, school, post office, city and tribal offices. The community formed a non-profit organization to operate their utility company (water/sewer/washeteria).

The non-profit organization received a grant from VSW to install a new well, new washeteria and water/sewer lines to connect to 60 homes, the school, store, tribal and city offices.

The project has fallen behind due to weather conditions and non-availability of gravel for the project. The project is now on RUSH – get the lines in before freeze-up. In putting the water/sewer lines into the ground the operator of the backhoe keeps digging up the telephone and electrical lines. This has happened seven times and the telephone/electrical company is fed up with this operator's workmanship. Every time the backhoe operator cuts a line, a line splicer has to be flown in from Anchorage to do the repairs and the project in turn is being billed for the work to repair the lines. (Round trip from Anchorage is \$287.00 and the labor is \$500.00 a day) Each repair job takes three days for the crew the complete. The phone company is threatening to sue and want to be reimbursed for what it costs to repair the lines.

The Project Manager has repeatedly reported to the mayor that he needs to hire a competent back hoe operator. The back hoe operator's screw-ups are costing the project money. If something isn't done, there may be a lawsuit. You know of this problem but don't want to confront the mayor.

As a Utility Manager what should you report to the council?

What has this cost the project to date?

What action is being taken to prevent future lines from being cut?

Managerial Reports

Exercise 2

Case Study Answer Sheet

- 1) As a Utility Manager what would you report to the council?

Response: A Utility Manager must be honest and up-front with everything to his/her supervisor and the council. Tell them the project has fallen behind because of weather conditions and the non-availability of gravel at the start of the project. Because of the time-line the crew is rushing to try to catch up and in the process the back-hoe operator is cutting the telephone and power lines which is cutting into the project budget. We plan on putting someone down into the lines once the operator has gone so far to prevent any further lines from being cut to try to eliminate any further cuts.

- 2) What has this cost the project to date?

Response: (For one line cut)

<u>\$ 287.00</u>	Air Fare (RT/Anchorage)
<u>\$ 1,500.00</u>	Labor (\$500.00 per day x 3 days)
<u>\$ 12,509.00</u>	Total Cost for seven cuts (7 trips) (\$1,787.00 x 7 = \$12,509.00)

- 3) What action is being taken to prevent future lines from being cut?

Response: One of the laborers already on the project will assist the backhoe operator in telling the operator when he has gone close enough to where the lines are laid and the operators will hand shovel the rest of the way to the lines, thereby preventing any future lines being cut.

There should be a map of where the utilities are and if not the lines need to be clearly marked as they are repaired to prevent this from happening again. The governing body needs to keep such a map identifying where all utilities and pipes are located.

If the operator is incompetent he needs to be let go and someone hired who is capable of running the backhoe and following directions.

Exercise within the exercise should bring out the fact that the council needs to be aware of the mayor's inability to act on the incompetence of his brother-in-law, proper procedures need to be followed so that the most competent backhoe operator is hired.

Case Study Answer Sheet (continued)

The utility should have a map indicating where their lines are. If they don't they need to provide information to help locate the lines (line locator) and to clearly mark them. The entity needs to make sure that in all future endeavors including this one all the lines and pipes are marked so they can be located to prevent this from happening in the future.

The council needs to meet with the utility and come to an agreement on paying for the line breaks, establishing that the lines need to be marked and hopefully prevent a lawsuit from happening.

The project superintendent needs to report directly to the council on any problems encountered.

And there may be others.

The object is to demonstrate that sometimes you may think you have things in place but without the information going to the proper person(s) there may be more going on than you think.

Appendices

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Commonly Used Forms

ALASKA CITY

CODE OF ORDINANCES

WATER & SEWER SYSTEM

Sections:

1. Purpose.
2. Prohibited acts.
3. Connection to city water and sewer system.
4. Establishing standards.
5. Standards for plumbing.
6. Permits for construction of individual water and sewer systems.
7. Maintenance required.
8. Authorized inspection.
9. City Utility Commission.
10. Utility rates.
11. Termination of service.
12. Penalties.

Section 1. Purpose. The purpose of this chapter is to regulate the operation and utilization of the community water and sewer and waste disposal facilities; to provide for the collection of user charges; and to protect the public health.

Section 2. Prohibited acts. (A) It shall be unlawful for any person or company to construct, maintain, or utilize a source of water supply in the new town site other than the City water system for drinking and sanitary purposes at any building located within 200 feet of the City water system.

B. It shall be unlawful for any person to construct, alter, or extend an individual water system except by permission of the City.

C. It shall be unlawful for any person to construct, maintain, or operate an unconnected water system within the city limits without the written permission of the City Council.

D. It shall be unlawful for any person to dispose of sewage, liquid waste, or human excrement within the city limits by any method from any building within 100 feet of the utility system other than through the utilization of the City sewage disposal system.

E. It shall be unlawful for any person to operate or maintain an individual sewage disposal system, unless it is constructed and maintained in a fashion that does not contaminate any source of drinking, public, or domestic water supply. Any individual sewage disposal system must be approved by the Alaskan City.

F. It shall be unlawful for any person to construct, alter, or extend an individual sewage disposal system except by permission of the City.

G. It shall be unlawful for any person to discharge sewage, garbage, or other domestic waste, other than wash water, on ground surface within the city limits except at specified locations.

H. It shall be unlawful for any person using the City water and sewage system to fail to protect their individual systems from the cold weather. All users shall protect their individual systems from freezing by inspecting and repairing the insulation of the water and sewer pipes. Heat tape or draining the interior plumbing is acceptable methods when the residence is not occupied.

Section 3. Connection to city water and sewer system. (A) Making of connections:

1. All connections to the city water and sewage systems upon completion of the water/sewer project shall be made at the expense of the user. Rates of the connection and all appropriate regulations governing connection, including the use of self-help, shall be declared by resolution of the Council.

2. All individual water service and sewer connections including repairs, modifications, or disconnections shall be made only under the terms and conditions as set forth by the regulations of the State of Alaska as adopted by the City, applicable Alaska State Plumbing Code, and any other regulations as the City may make.

B. Each application for water and/or sewage service connection shall be in writing and shall include the following:

1. Legal name and address of applicant;
2. Description of the property and building for which the water service and/or sewage service is requested;
3. Such additional information as the City may require demonstrating that the proposed connection complies with this chapter.

C. Approval of Application: Appeal. (1) If the City is satisfied that the application and the proposed connection complies with this chapter and applicable regulations relating to the water and sewer systems, it shall approve the application for, and provide for, the connection.

2. Any person whose application for connection has been denied or conditionally approved may appeal to the City Council at its next regularly scheduled meeting.

D. Installation of service lines: All consumer lines to the point of connection to the city water and sewer lines shall be installed by the user, at his own expense, and remain his responsibility for maintenance and repair.

Section 4. Establishing standards. The City may issue regulations establishing standards for the installation of domestic fixtures to be served by the city water and sewage systems, water and sewer lines, and all related appurtenances as needed to ensure the safe utilization of the city water and sewer systems. All uses must conform to the regulations of the State of Alaska and to any regulation as may be adopted by the City.

Section 5. Standards for plumbing. All plumbing work shall comply with applicable regulations and standards of the State of Alaska and any other regulations issued by the City.

Section 6. Permits for construction of individual water and sewer systems. (A) An application for a permit for the construction, alteration, or extension of an individual water system or sewage disposal system shall be made in writing to the City and shall include the following:

1. Legal name and address of applicant;
2. Description of the property on which the construction, alteration, or extension is proposed;
3. A sketch of the proposed disposal facility and any other information the City considers necessary to demonstrate that the proposed facility will comply with this chapter and the standards of the State of Alaska.

B. Approval of Permit; Appeal

1. If the City is satisfied that the proposed facility will comply with this chapter and with state regulations, it shall approve the application and issue a permit for the work.

2. Any person whose application for a permit has been denied may appeal to the City Council at its next regular meeting.

Section 7. Maintenance required. Each resident connected or unconnected to the City water or sewage system shall maintain his individual water and waste facilities in good repair at his own expense. The connected resident's responsibility for water and sewer facilities shall begin at the point of connection to the city's water and sewer facilities and shall include all facilities from that point through the building. Unconnected residents shall have complete responsibility for their own system.

Section 8. Authorized inspection. The City through its designated representative or representatives is authorized to make inspections at reasonable times during the daylight hours to determine satisfactory compliance with this chapter and regulations issued by the Council. Consumers by virtue of applying for connection to the city water and sewer system or for permits to construct individual water and sewer systems are considered to have knowledge of the provisions of this chapter and to have authorized such inspections.

Section 9. City Utility Commission. (A) There shall be a City Utility Commission. The Commission shall have the authority to administer this chapter; to establish and regulate monthly service rates; and to issue regulations and procedures consistent with this chapter.

B. The City Council shall have the authority to overrule, by resolution, any regulation, provision or provisions of regulation, procedure, or service rate proposed by the Commission when it considers such action to be contrary to public good. Such proposed action of the Commission shall be null and void when the City Clerk delivers the resolution to the Commission

C. The City Utility Commission shall consist of three members who shall be nominated by and approved by the City Council. The Utility Operator shall also serve as the fourth Commission member. Commission members serve at the pleasure of the Council. The Council shall set the remuneration of the Commission by resolution. The City Treasurer shall be the City Utility Commission Treasurer.

D. All monies collected for water, sewer and solid waste utilities shall be used strictly for administration, maintenance, repair, extension, capital improvement, and operation of those systems.

E. All monies collected for water, sewage, and solid waste shall be set up in such a way as to be easily tracked by the City Treasurer and any disbursement must be approved by the city council through the budget. A separate accounting shall be kept of these monies.

Section 10. Utility rates. (A) The following rates shall be in force until amended by the City Utility Commission: and approved by resolution of the City Council.

- | | |
|------------------------------|-------------------------------------|
| 1. Residential customers. | \$115.00 per month |
| 2. Commercial customers: | To be negotiated separately but not |
| less than \$115.00 per month | |

B. Customers who wish to prepay six months of service in advance shall be charged the following rates:

- | | |
|------------------------------|-------------------------------------|
| 1. Residential customers: | \$95.00 per month |
| 2. Commercial customers: | To be negotiated separately but not |
| less than \$100.00 per month | |

C. There shall be a reconnect fee of \$20.00.

D. The City Clerk or designee shall deliver or cause to be delivered monthly bills to each customer on the first business day of each month.

E. Monthly service bills shall be paid to the City Treasurer.

Section 11. Termination of service. (A) The City Utility Commission may disconnect service of any customer who refuses to allow inspection under Section 8 of this chapter.

B. The City Utility Commission may disconnect service of any customer when it has reason to believe that the service meter of that customer is being tampered with.

C. The City Utility Commission may disconnect service of any customer when defective fixtures or misuse of sewage facilities may affect the safe and proper operation of the city water or sewer system or when there is a willful waste of water.

D. The City Utility Commission may disconnect service to any customer who refuses to pay in full their service bill as described in Section 10(E) of this Chapter. The disconnection shall occur in the following manner:

1. Thirty days (30) after delivery of bill, the City Clerk shall give written notice, in the form shown by Attachment A of this Chapter, to the customer of the Commission's decision to disconnect service. The notice shall include the amount the customer owes and the expected date of disconnection.

2. Sixty days (60) after delivery of bill, the City Clerk shall give a written final notice, in the form shown by Attachment B of this Chapter, to the customer that the Utility Operator or designee has been instructed by the Commission to disconnect service at 12:00 noon of the day of notice. The City Clerk shall also give the customer a notice, in a form shown by Attachment C of this Chapter, which describes the procedures for reconnection.

E. Prior to disconnection of service, the customer may appeal to the City Council for delay of disconnection in order to correct the violation; or to make arrangements to pay the outstanding bill in installments.

F. If the City Council determines that the customer is unable to pay their service bill because of financial hardship, the Council may delay disconnection of service for a period not to exceed six (6) weeks from the date of final notice.

G. The City Council is authorized to use legal means to enforce provisions of this chapter as it relates to unpaid service bills.

Section 12. Penalties. Any person who fails to comply with the provisions of this ordinance is guilty of a misdemeanor and upon conviction may be fined not more than. Each day a violation exists is a separate violation.

Date: _____ am _____ pm _____

Service Performed Water_____Sewage_____

Other

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Signature: _____

INVOICE

Name of Customer:_____

For the service provided above you owe \$_____

Previous balance _____

Total Due\$_____

Please submit payment at the City office.

City of _____ Representative/Date

Title:_____

CITY UTILITY COMMISSION
Alaskan City

NOTICE OF DECISION TO DISCONNECT SERVICE

Customer's name
Address

We the members of the City Utility Commission hereby find that you were provided a water and sewer service bill dated _____ with an amount of \$ _____ and that you have refused to pay such service bill by not submitting payment in full.

This action constitutes a violation of Chapter _____, Section 10(E) of the Code of Ordinances of the Alaskan City.

Because you have continued to refuse to pay in full the amount of your water and sewer service bill, the Commission hereby gives notice that your water and sewer service will be discontinued on _____.

You may appeal the decision of this Commission to the City Council at its next regularly scheduled meeting dated _____.

Date _____

ATTEST:

City Clerk

Commission member

Commission member

Commission member

CITY UTILITY COMMISSION
Alaskan City

FINAL NOTICE

Customer's name
Address

The City Utility Commission hereby gives notice to the Utility Operator or designee to disconnect your water and sewer service. This notice is required by Chapter , Section 11(D)(2) of the Code of Ordinances of the Alaskan City.

The disconnection will occur at 12:00 noon on _____.

This disconnection is a result of a violation of Chapter , Section 10(E) of the Code of Ordinances of Alaskan City.

You were notified by this Commission of its intention to disconnect your water and sewer service on _____. Since that notice, you have made no effort to pay in full your obligation to this City.

Date _____

ATTEST:

City Clerk

Commission member

Commission member

Commission member

CITY UTILITY COMMISSION
Alaskan City

PROCEDURES FOR RECONNECTION

Customer's name
Address

Under Chapter , Section 11(D)(2) of the Code of Ordinances of the Alaskan City, your water and sewer service shall be resumed when you have performed the following:

1. Paid in full your outstanding service bill in the amount of \$_____.
2. Paid a reconnect fee in the amount of \$20.00.
3. Re-applied for water and sewer service by submitting a complete application.

Your water and sewer service will be reconnected ONLY after you have performed all of these procedures.

ATTEST:

Date _____

City Clerk

Mayor, Alaskan City

Residential Utility Service Agreement

This Agreement is made between City of XXXXXXXXXXXX, Water and Sewer Utility as the Utility and _____ as the Applicant.

The Applicant requests that the residence on the property described in Appendix A, be connected to the Utility's water/sewer system.

As part of the request, the Applicant agrees:

1. To abide by the water and sewer ordinances, rules, and policies adopted by the City and Utility.
2. To grant at no cost, a Right-of-Entry (form attached as Appendix B) to the Utility to construct the connection to the Applicants residence.
3. If necessary, grant at no cost, an Easement (form attached as Appendix C) to the Utility for construction of water/sewer **main lines** across the Applicants property.
4. To pay the Utility, a monthly service fee for water/sewer at the rate established by the Utility for residential customers.
5. To pay any deposits required by the Utility prior to connection of service.
6. That delinquent bills (more than 30 days past due) are subject to collection actions. These actions can include, but are not limited to, interest charges, late payment fees, deposit forfeiture, suits in small claims court, and disconnection of service.
7. Maintain the plumbing on the Applicants property and within the residence, including all plumbing, piping, fixtures, and other appurtenances intended to carry water, sewage, waste water and drainage in accordance with the Uniform Plumbing Code.
8. To use the heat tape and maintain adequate insulation for the system to prevent freezing during the winter. The Applicant agrees that they will not continuously run water during cold weather to keep the pipes from freezing, or that they will pay an "Excessive Use Charge" as set by the Utility for continuously running water.

9. To allow the Utility to enter onto the property to make emergency repairs to the service line up to the connection to the residence in order to save the Utilities pipes, lines, equipment and facilities from damage.
10. In the event of water shortages, the Applicant agrees to work with the Utility on measures to conserve water use.
11. That by signing this Agreement, the Applicant grants to the Utility, its officers, employees, agents and assigns, the right of ingress and egress to the property and residence for purposes of inspection of piping, plumbing, fixtures and other appurtenances intended to carry water, sewage, and waste water. The ingress and egress shall be at a reasonable time, and whenever possible the Utility shall provide advance notice of any inspection.
12. Be available in-person to complete and sign an individual service Work Order. Prior to the meeting where the Work Order is completed, the Applicant should plan where they would like the fixtures located.

The Utility agrees to:

1. Connect the facility to the Utility's existing water/sewer system.
2. As much as possible, provide a continuous and sufficient supply of potable water at adequate pressure to the customer.
3. Bill the applicant on a monthly basis for water/sewer service.
4. Work to continue to improve sanitary conditions in **XXXXXXXXXXXX** by placing a high priority on planned capital improvements for water and waste disposal facilities, administering the operation of future improvements, and administering and enforcing the ordinances, rules, and policies designed to improve sanitation practices in **XXXXXXXXXXXX**.

All bills, invoices, statements, payments, notices or correspondence shall be sent to the respective parties at the address stated below:

Applicant

Utility

Utility Manager
City of
Water/Sewer Utility
P.O. Box
XXXXXXXXXXXX, AK 99xxx

This agreement takes effect on this _____ day of _____, 19__.

Applicant

Water and Sewer Utility

ATTACHMENTS: Appendix A - Legal Description
 Appendix B - Sample Right-of-Entry
 Appendix C - Sample Easement

ACKNOWLEDGMENT

State of Alaska)
 : ss
_____ Judicial District)

This is to certify that on this _____ day of _____, 19__, before me, the undersigned Notary Public, in and for the State of Alaska, duly commissioned and sworn as such, personally appeared _____, an individual, who acknowledged to me that (s)he executed the within and foregoing Agreement as a voluntary act and deed for the uses and purposes therein mentioned.

Notary Public in and for Alaska
My Commission expires:

Date

RIGHT-OF-ENTRY

WITNESSETH:

WHEREAS, the City of _____, Water and Sewer Utility, proposes to construct water/sewer distribution lines to connect private residences in _____.

WHEREAS, the various owners and/or occupants are in agreement with the City's desire to construct said water and sewer distribution lines.

WHEREAS, it will be the owners and/or occupants responsibility to maintain the distribution lines once constructed, such that a permanent easement is not required.

NOW THEREFORE, the parties mutually agree as follows:

1. In consideration of the mutual benefits to be derived from the construction of the distribution lines, _____, as the Grantor does hereby grant this Right-of-Entry to the City of _____, Water and Sewer Utility, as the Grantee.
2. The Grantor does grant to the Grantee, its contractors, employees, agents and assigns, the right to enter upon the following described real property for the purposes of constructing water and sewer distribution lines over, through, and across said lands, said property being situated in the City of _____, _____ Judicial District, _____ Recording District, Alaska, and more particularly described in Appendix A.
3. That in the event no water and sewer distribution lines are constructed within 2 years from the date that this Right-of-Entry is executed by the Grantee, the Right-of-Entry will automatically expire.
4. This Right-of-Entry is granted subject to the stipulations attached as Appendix B.
5. This Agreement is effective on the date signed by both parties.

IN WITNESS WHEREOF, the parties have executed this Agreement .

GRANTOR'S SIGNATURE

Date

GRANTEE'S SIGNATURE

Date

ATTACHMENTS: Appendix A - Legal Description
 Appendix B - Stipulations

STIPULATIONS

- A. The Grantee, its contractors, subcontractors and all personnel (herein after referred to as the permittee) shall indemnify and hold harmless the Grantor against and from any and all demands, claims, or liabilities of every nature whatsoever, arising directly or indirectly from, or in any way connected with, their actions or activities executed under the provisions of this Right-of-Entry.
- B. All waste generated during construction and operation under this Right-of-Entry shall be removed or otherwise disposed of in a manner acceptable to the Grantor.
- C. This Right-of-Entry does not authorize any other activity other than that which is applied for. Other uses of the right-of-way area including modifications, relocations and future expansion shall require additional permit approval prior to making any such modifications.
- D. This Right-of-Entry, and the rights and privileges granted thereby is subject to all valid existing rights.
- E. In the event the Grantor determines that the permittee has failed or refused to comply with the provisions of this Right-of-Entry the Grantor by written or oral order, may suspend or terminate any or all of the permittee's activities insofar as they apply to this Right-of-Entry. The permittee shall not resume such suspended or terminated activities until given written authorization to do so by the Grantor.

I have read the foregoing stipulations and I agree to comply with all stipulations included within this Right-of-Entry.

GRANTEE'S SIGNATURE

Date

COMMERCIAL WATER & WASTEWATER SERVICE AGREEMENT

This Agreement is made between City of _____, Water and Sewer Utility as the Utility
and _____
_____ as the Applicant.

The Applicant requests that the facility on the property described in Appendix A, be connected to the Utility's water/sewer system.

As part of the request, the Applicant agrees:

1. Pay for all materials, labor, and costs associated with connecting the facilities to the City's existing system.
2. As part of the cost of connection, install a flow meter at a point where water first enters each facility. The meter shall be located such that the City will have reasonable access to it for the purposes of reading it to determine usage.
3. To grant at no cost, a Right-of-Entry (form attached as Appendix B) to the Utility to construct the connection to the Applicants facility(ies).
4. If necessary, grant at no cost, an Easement (form attached as Appendix C) to the Utility for construction of water/sewer **main lines** across the Applicants property.
5. To pay the Utility, a monthly service fee for water/sewer at the rate established by the Utility for metered commercial customers, or if the Applicant is a high volume user, at the rate negotiated with the Utility.
6. To pay any deposits required by the Utility prior to connection of service.
7. That delinquent bills (more than 30 days past due) are subject to collection actions. These actions can include, but are not limited to, interest charges, late payment fees, deposit forfeiture, suits in small claims court, and disconnection of service.
8. Maintain the plumbing on the Applicants property and within the facility, including all plumbing, piping, fixtures, and other appurtenances intended to carry water, sewage, waste water and drainage in accordance with the Uniform Plumbing Code.
9. To use the heat tape and maintain adequate insulation for the system to prevent freezing during the winter. The Applicant agrees that they will not continuously run water during cold weather to keep the pipes from freezing, or that they will pay an "Excessive Use Charge" as set by the Utility for continuously running water.
10. In the event of water shortages, the Applicant agrees to work with the Utility on measures to conserve water use.
11. To abide by the water and sewer ordinances, rules, and policies adopted by the City and Utility.
12. That by signing this Agreement, the Applicant grants to the Utility, its officers, employees, agents and assigns, the right of ingress and egress to the property and facility for purposes of inspection of piping, plumbing, fixtures and other appurtenances intended to carry water, sewage, and waste water. The ingress and egress shall be at a reasonable time, and whenever possible the Utility shall provide advance notice of any inspection.

Commercial Utility Service Agreement
Page Two of Three

The Utility agrees to:

1. Allow connection of the facilities to the Utility's existing water/sewer system.
2. As much as possible, provide a continuous and sufficient supply of water at adequate pressure to the customer.
3. Read all water meters and bill the applicant based on the meter readings for water/sewer service on a monthly basis.
4. Work to continue to improve sanitary conditions in Alakanuk by placing a high priority on planned capital improvements for water and waste disposal facilities, administering the operation of future improvements, and administering and enforcing the ordinances, rules, and policies designed to improve sanitation practices in Alakanuk.

All bills, invoices, statements, payments, notices or correspondence shall be sent to the respective parties at the address stated below:

Applicant

Utility

City Manager

City of **XXXXXXXXXXXX**

Water/Sewer Utility

P.O. Box 167

XXXXXXXXXXXX, AK

This agreement takes effect on this _____ day of _____, 20____.

Applicant

Water and Sewer Utility

ATTACHMENTS: Appendix A - Legal Description
 Appendix B - Sample Right-of-Entry
 Appendix C - Sample Easement

Commercial Utility Service Agreement
Page Three of Three

ACKNOWLEDGMENT

State of Alaska)

: ss
Second Judicial District)

This is to certify that on this _____ day of _____, 20____, before me, the undersigned Notary Public, in and for the State of Alaska, duly commissioned and sworn as such, personally appeared _____, to me known to be the _____, for the _____, and who acknowledged to me that (s)he executed the within and foregoing Agreement on behalf of the _____, by authority of its _____, as the voluntary act and deed of said entity, for the uses and purposes therein mentioned.

Notary Public in and for Alaska

My Commission expires: _____

ACKNOWLEDGMENT

State of Alaska)

: ss
Second Judicial District)

This is to certify that on this _____ day of _____, 199____, before me, the undersigned Notary Public, in and for the State of Alaska, duly commissioned and sworn as such, personally appeared _____, to me known to be the _____, for the City of _____, a Second Class City, organized and existing under the laws of the State of Alaska, and who acknowledged to me that (s)he executed the within and foregoing Agreement on behalf of the City of _____, by authority of its City Council, as the voluntary act and deed of said entity, for the uses and purposes therein mentioned.

Notary Public in and for Alaska

My Commission expires: _____

(Revised 4/27/87; replaces Forms PU 101, PU 104, PU 107A, and PU 107B.)

DATE FILED: _____

DOCKET NO: _____

FEE PAID: _____

**APPLICATION FOR NEW OR AMENDED CERTIFICATE
OF PUBLIC CONVENIENCE AND NECESSITY**

PART I. GENERAL INFORMATION :

A. Applicant: _____
(Utility Name)

Business
Address: _____
(Street Address or P.O. Box)

(City) (State and Zip Code)

Business Telephone: _____
(Area Code/Number)

B. Person to be contacted with respect to this application:

(Name) (Street Address or P.O. Box)

(Position) (City, State, & Zip Code)

(Daytime Telephone Number)

- C. Type of Utility
- ☐ Electric
 - ☐ Gas
 - ☐ Refuse
 - ☐ Sewer
 - ☐ Telecommunications (Cable Television)
 - ☐ Telecommunications (Local Exchange)
 - ☐ Telecommunications (Long Lines Carrier)
 - ☐ Telecommunications (Radio Common Carrier)
 - ☐ Water
 - ☐ Other _____

D. Applicant proposes to:

- ☐ Secure a certificate of public convenience and necessity.

() Amend Certificate No. _____

E. List any utilities or other entities which you are aware are currently providing the same type of service in the area sought by this application:

(1) _____ (2) _____

(Address)

(Competing Service)

(Competing Service Area)

F. Applicant is:

- | | |
|-----------------|------------------------------------|
| () Cooperative | () Private – Owned Corporation |
| () Individual | () Municipally – Owned Utility |
| () Partnership | () Political Subdivision of State |
| () Limited | () General |
| () Other _____ | |

Competing entities are those entities providing, or intending to provide, the same, or substantially the same, service or facility to any part of the requested service area.

G. List the owners of five percent or more of the applicant's equity:

(Name) (Percent Ownership)

(Address)

(Name) (Percent Ownership)

(Address)

(Name) (Percent Ownership)

(Address)

H. List all persons or entities which are affiliated interests of the applicant as defined in A 42.05.720(1)(A) – (G):

(Name) (Street Address or P.O. Box)

(City, State, and Zip Code)

(Name) (Street Address or P.O. Box)

(City, State, and Zip Code)

I. Location where company books will be kept:

(Address)

(Note: AS 42.05.491 requires that a public utility keep its books, accounts, papers, and records in an office within the State of Alaska, unless the utility has received Commission approval for another location.)

PART II: GENERAL DOCUMENTS:

Applicants must provide the following information in attachments numbered to correspond to the items below.

A. KEY MANAGEMENT

List the names, titles, and responsibilities of all key management now employed or to be employed in the utility operation. Submit a resume for each person, including all prior background, schooling, and any other qualifications, which may be useful to the operation of the utility.

If accurate, up-to-date resumes are on file with the Commission, an applicant requesting an amendment to a certificate may satisfy this information requirement by submitting a statement to this effect.

B. CORPORATE OR PARTNERSHIP DOCUMENTS

If the applicant is a corporation, enclose the following:

- 1) Certificate of Incorporation
- 2) Articles of Incorporation
- 3) Bylaws

If the applicant is a partnership, enclose a copy of the partnership agreement.

If accurate, up-to-date corporate or partnership documents are on file with the Commission, an applicant requesting an amendment to a certificate may satisfy this information requirement by submitting a statement to this effect.

C. BENEFIT TO THE PUBLIC

Explain in detail why the new or additional utility service is, or may be, required for the public convenience and necessity and state why an existing, similar service is insufficient or why overlapping certification is otherwise appropriate. Also include the number and type of customers by geographic location which the applicant expects to serve. Explain how the customer estimates were derived.

In addition to the above, if the applicant is a certificated utility, describe the impact of the amendment on the existing subscribers (i.e., effect on rates, quality of service, service provided, etc.).

D. SERVICE AREA MAP

Attach a map clearly showing the boundary of the applicant's proposed service area using a U.S.G.S. topographic map, scale 1:63,360 (or 1:24,000 if available). In cases where the proposed service area is less than one square mile, contact the Commission Staff for the appropriate map. Include a description of the area using townships and ranges.

If the applicant is a certificated utility, provide a map, which shows how the current service area boundary will be modified if the amendment is approved.

E. UTILITY PRACTICES AND PROCEDURE

Attached the proposed tariff or practices and procedures of the applicant, showing all rates, deposits, and charges associated with providing the proposed service to the general public and including the standard practices the applicant will follow when dealing with its customers (such as billing practices, conditions of disconnection, etc.). Applicants should refer to 3 AAC 48.200 -- AAC 48.420 for tariff requirements adopted by the Commission or may contact the Commission Staff for samples of approved tariffs.

If an applicant is a certificated utility, submit a statement which incorporates by reference those pages of its currently effective tariff which are applicable to the amendment and include in the application only additional or modified tariff pages resulting from the amendment (e.g., the service area map).

PART III: TECHNICAL DOCUMENT / INFORMATION:

At a minimum, an applicant for a certificate must provide the following information for the type of utility certificate requested. All relevant permits and licenses for operation including, but not limited to, those listed below must be submitted with applications for certification.

Sewer Utility

<u>New Certificate</u>	<u>Amended Certificate</u>
1) the names and addresses of those responsible for the design, installation, maintenance, and repair of the proposed system;	1) the names and addresses of all non-utility personnel or entities responsible for the design, installation, maintenance, and repair of the addition to the system;
2) a description of the treatment facilities and the method of disposal of treated effluents for the proposed service area;	2) a description of the treatment facilities and the method of disposal of treated effluents for the additional service area, if different from those currently in use, and a description of the impact of the amendment on the existing facilities;
3) the system layout for the proposed service area including, at a minimum, sizes of existing and/or proposed mains and lateral lines, lift stations, and treatment plant(s); and	3) the system layout for the additional service area including, at a minimum, sizes of existing and/or proposed mains and lateral lines, lift stations, and treatment plants(s); and
4) a copy of the approval for the proposed service from the Alaska Department of Environmental Conservation ("Final Operation Approval"). If the approval has not yet been issued, describe and document what has been done to obtain it.	4) a copy of the approval for the additional service from the Alaska Department of Environmental Conservation ("Final Operation Approval"). If the approval has not yet been issued, describe and document what has been done to obtain it.

Note: Sewer utilities may provide copies of information filed with the Alaska Department of Environmental Conservation for (2) and (3) of the above required.

Water Utility

<u>New Certificate</u>	<u>Amended Certificate</u>
1) the names and addresses of those responsible for the design, installation, maintenance, and repair of equipment for the proposed system;	1) the names and addresses of all non-utility personnel or entities responsible for the design, installation, maintenance, and repair of equipment for the addition to the system;
2) a description of the sources(s) of water for the proposed service area, including the quantity available, pumping capacity for each source, reservoir capacity, and the available reserve capacity (in hours) in case of power outages and/or well failure;	2) a description of the source(s) of water for the additional service area, if different from that currently in use, including the quantity available, pumping capacity for each source, reservoir capacity, and the available reserve capacity (in hours) in case of power outages and/or well failure, and a description of the impact of the amendment on the existing water source;
3) the system layout for the proposed service area including, at a minimum, sizes of mains and lateral lines, and water treatment plant(s); and	3) the system layout for the additional service area including, at a minimum, sizes of mains and lateral lines and water treatment plant(s); and
4) copies of approvals for the proposed service from the Alaska Department of Environmental Conservation (“Final Operation Approval”) and the Department of Natural Resources (“Certificate of Appropriation”). If the approvals have not yet been issued, describe and document what has been done to obtain them.	4) copies of approvals for the additional service from the Alaska Department of Environmental Conservation (“Final Operation Approval”) and the Department of Natural Resources (“Certificate of Appropriation”) and the effect the new service will have on existing water rights. If the approvals have not yet been issued, describe and document what has been done to obtain them.

Note: Water utilities may provide copies of information filed with the Alaska Department of Environmental Conservation for (2) and (3) of the above requirements.

PART IV: FINANCIAL INFORMATION:

At a minimum, applicants must provide the following:

A. FINANCIAL STATUS:

The applicant must provide the following historical financial information:

- 1) if the applicant is an existing business which previously has not operated as a utility or has not been certificated to operate as a utility, copies of the most recent year’s balance sheet and income statement for the existing business (preferably audited); or
- 2) if the applicant is a new business which proposes to operate as a utility, copies of the most recent year’s balance sheet and income statement for the principal owners of the business; or
- 3) if the applicant is a certificated utility, copies of the appropriate pages from its annual report to the Commission, if those pages still reflect the current financial status of the utility, or copies of current statements to other agencies (e.g., Rural Electrification Administration Electric Form 7 or Telephone form 479) or copies of its most recent internal documents which contain substantially the same information.

In addition, applicants must provide the following pro forma financial schedules:

- 1) a schedule of operating revenues (see attached Schedule 1);

- 2) a schedule of operating expenses (see attached Schedule 2);
- 3) a plant-in-service and depreciation schedule (see attached Schedule 3);
- 4) a computation of the utility's weighted cost of capital (see attached Schedule 4);
- 5) a computation of the utility's rate base and return (see attached Schedule 5);
- 6) a tax computation (see attached Schedule 6); and
- 7) a revenue requirement and calculation of proposed rates (see attached Schedule 7).

B. SOURCES OF FINANCING

List the sources of the financing for the proposed utility or expansion of an existing utility. Include documentation showing that the sources listed will provide the applicant with the required funds. Include the terms and conditions of all loans and equipment contracts which may be relevant. If a portion or all of the plant is contributed, list the sources and conditions of all on-site and off-site assessments, grants, or other sources of funding.

PART V: AUTHORIZATION:

Verification of Application and Authorization of Notice

The undersigned hereby verifies the application and requests the Alaska Public Utilities Commission to grant to applicant a certificate of public convenience and necessity for the services and service areas set out above.

The undersigned applicant hereby authorizes the Alaska Public Utilities Commission to arrange notice of this application to other utilities and interested persons by publication in newspapers of general circulation in the applicant's existing and/or proposed service area. The applicant agrees to pay the cost of such publication of notice.

DATED at _____ Alaska, this _____ day of _____, 2002.

Name of Applicant

By: _____
Principal Officer, Partner, or Owner

Name and Title

Address of Applicant

Name and address of attorney for

Commonly Used Abbreviations

AANHS	Alaska Area Native Health Service
ADA	Americans with Disabilities Act
ADEC	Alaska Department of Environmental Conservation
ADES	Alaska Division of Emergency Services
AICPA	American Institute of Certified Public Accountants
ANTHC	Public Health Service (same as AANHS) see also IHS
AWWA	American Water Works Association
AWWMA	Alaska Water Wastewater Management Association
CPA	Certified Public Accountant
DCED	State of Alaska Department of Community and Economic Development
DNR	State of Alaska Department of Natural Resources
DOL	State of Alaska Department of Labor
DOT/PF	Alaska Department of Transportation and Public Facilities
EEO	Equal Employment Opportunity Act of 1972
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FC&O	Facilities, Construction, and Operations
FEMA	Federal Emergency Management Agency
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Governmental Auditing Standards
GASB	Governmental Accounting Standards Board
IHS	Indian Health Service (same as AANHS) see also ANTHC
IRA	Indian Reorganization Act
IRS	Internal Revenue Service
MCL	Maximum Contaminant Level

Commonly Used Abbreviations (Continued)

O&M	Operation and Maintenance
OEH	Office of Environmental Health
OIT	Operator in Training
OMB	Office of Management and Budget
OSHA	Occupational Safety & Health Administration
P&L	Profit and Loss
PM	Preventive Maintenance
RASC	Rural Alaska Sanitation Coalition
RD	Rural Development
RMW	Remote Maintenance Worker
RUBA	Rural Utilities Business Advisor
SAS	Statements on Auditing Standards
SOP	Statements of Position
UPS	Uninterruptible Power Supply
VSW	Village Safe Water
WEF	Water Environment Federation

Definition of Key Terms

Account Delinquency	Accounts with an outstanding balance that are not paid in a timely manner.
Accounting	A systematic process of recording, analyzing and summarizing transactions that have an impact on the financial status of a person or an organization.
Accounting Cycle	A series of steps performed during each accounting period to classify, record, and summarize data for a business to produce needed financial information.
Accounts Receivable	Claims for future collection from customers.
Accrual Basis	A system of accounting by which all revenues and expenses are matched and reported on statements for the applicable period, regardless of when the cash related to the transaction is received or paid.
Action Plan	See Chapter 4, Rate setting plan of action.
Aging	Classifying accounts as to how long they have been outstanding.
Appropriation	Funds set aside for a specific purpose.
Asset	Properties and valuables of an individual or organization including land, structures, system improvements, equipment, vehicles, inventory, receivables, investments, and cash.
Audited Financial Statements	Financial statements that have been prepared following the auditor's review of financial information to assess its fairness and adherence to generally accepted accounting principles.
Auditing	The review of financial information to assess its fairness and adherence to generally accepted accounting principles.
Balance Sheet	A formal report of a business's financial condition on a certain date; reports the assets, liabilities, and owner's equity of the business.

Breakeven	A point at which revenue equals expenses.
Budget	A financial plan outlining what resources an organization expects to receive and where it will expend its funds for a given period of time, usually one year.
Capital	Items acquired or constructed with a life expectancy of more than one year and having a value of typically more than \$250.
Capital Projects	Projects that consist of special programs or the constructing of large capital structures.
Cash Basis	A system of accounting by which all revenues are matched and reported on statements when the cash related to the transaction is received.
Cash Flow Report	A financial statement that shows a business's inflows and outflows of cash during a fiscal period.
Certification	A process that the Alaska Department of Environmental Conservation uses to show the competence of operators of water supply or wastewater systems. (The certification is based upon experience and examination requirements.)
Certified Financial Statements	Certified statements of revenues and expenditures for a given period accompanied by a resolution of the governing body that the information is true and correct.
Chart of Accounts	A listing of accounts used to categorize transactions in an accounting system. Accounts are referenced with a numbering or naming system.
Collection Agency	An organization that sets out to recover balances due from customers with delinquent accounts.
Collections	The processes used to get past-due customers to pay.
Corporation	A publicly or privately owned business entity that is separate from its owner and has a legal right to do business in its own name; stockholders are not responsible for the debts or taxes of the business.
Credit	An entry on the right side of an account.

Credit Memorandum	A note verifying that a customer's account is being reduced by the amount of a sales return or sales allowance, plus any sales tax that may have been involved; also, a form that explains any amount other than a deposit that is added to a checking account.
Current	Any asset or liability that will be used or paid within one year.
Debit	An entry on the left side of an account.
Depreciation	Allocation of the cost of a long-term asset to operations during its expected useful life.
Effectiveness	Having an intended or expected effect, or producing a strong impression or response.
Efficiency	Producing an effect with a minimum of waste or effort. Exhibiting a high ratio of output to input.
Enterprise Fund	The fund containing monies set aside for the organization's utility expenditures. (Utility Fund)
Expense	Payments or disbursements made to others for goods or services.
Financial Capacity	Having adequate financial resources to continue operations and fund major repairs.
Financial Management	The focus is on cash flow and optimal use of current assets.
Financial Reports	Financial information that is compiled and prepared into a useful format.
Fiscal Year	A twelve month period for which an organization plans to use its funds.
Fund	A sum of money or other resources set aside for a specific purpose.
Fund Balance	The worth of the organization. The fund where all surpluses and deficits from prior years accumulate.

Fundamental Accounting Equation	The relationship between assets and liabilities plus owner's equity.
General Fund	Revenue in this fund are unrestricted and are used by the local government to provide public services and to subsidize the operation and maintenance of utilities or other enterprises that would not otherwise be available.
Grants Fund	Money received from an outside source to provide a special program. The money is restricted to the program, and if unspent will need to be returned to the provider.
Income Statement	A formal report of business operations covering a specific period of time; also called a profit and loss statement or a statement of income and expenses.
Inventory	All goods and materials in stock for use in operations.
Invoice	A customer's billing for merchandise bought on credit; supplier's bill for items ordered and shipped.
Journal	The record of original entry.
Ledger	The record of final entry.
Liability	A debt or obligation of a business.
Liquidity	The ease with which an item can be converted to cash; the ability to pay debts when due.
Locally Generated	Operating revenues produced by an organization, not gained from any outside source.
Long-term	Any asset or liability that will be used or due in more than a year into the future.
Management	A system of organizing, directing, and utilizing resources for maximum efficiency.
Management Reports	A combination of financial data to provide the manager with information that cannot be easily seen by looking at financial numbers.
Managerial Capacity	Having adequately trained personnel.

Non-profit	An organization whose primary objective is to service the public without the intent of gaining wealth.
Normal Balance	The increase side of an account.
Operating Losses	Current expenses are greater than current revenues resulting from the sale of goods or services.
Operating Revenues	Current inflow of money or other assets that results from the sale of goods or services or from the use of money or property.
Ordinance	A municipal statute or regulation.
Outside Source	The State of Alaska, federal government, or other outside grantor which provides funds to organizations usually for a specific purpose.
Partnership	A business entity owned by two or more people who are legally responsible for the debts and taxes of the business.
Per Customer Charge	
Ratio Analysis	Computing relationships between various items on the financial statements.
Reserves	Funds set aside for a particular use.
Revenue	Income or money paid for services rendered or a grant of money.
Service Disconnect	Physically disconnecting customer's service due to unpaid balances.
Single Audit	An audit of the whole organization and all programs.
Sole proprietorship	A business entity owned by one person who is legally responsible for the debts and taxes of the business.
Stewardship	An individual or entity in the position of managing or superintending.
Subsidiary Ledger	A ledger dedicated to accounts of a single type and showing details to support a general ledger account.
Technical Capacity	Having the equipment and supplies to do a job well.

Transaction	The act or process of carrying out or conducting business affairs.
Usage	The act, manner or amount of using.
Utility Charge	
Utility Fund	The fund containing monies set aside for the organization's utility expenditures. (Enterprise Fund)

